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BEFORE THE ARIZONA CORPORATION COMMISSION

2006 SEP 13 P 1:36

COMMISSIONERS

AZ CORP COMMISSION
DOCUMENT CONTROL

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

IN THE MATTER OF THE APPLICATION OF)
NAVOPACHE ELECTRIC COOPERATIVE, INC.)
AN ARIZONA NON-PROFIT CORPORATION,)
FOR APPROVAL OF A RUS GUARANTEED)
FFB LOAN IN THE AMOUNT OF \$33,231,000)
TO FUND CONSTRUCTION OF FACILITIES)

DOCKET NO. E-01787A-05-0719

COMPLIANCE

In compliance with Decision No. 68691 (May 5, 2006), Navopache Electric Cooperative, Inc. hereby files its executed loan documents in this matter.

RESPECTFULLY SUBMITTED this 13th day of September 2006.

By

John Wallace
Grand Canyon State Electric Cooperative Association
120 North 44th Street, Suite 100
Phoenix, AZ 85034

An original and thirteen copies of Navopache Electric Cooperative, Inc.'s Executed Loan Documents filed this 13th day of September, 2006 with:

DOCKET CONTROL
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission

DOCKETED

SEP 13 2006

By

DOCKETED BY



United States Department of Agriculture
Rural Development

AUG 15 2006

Mr. Jon K. Miles
General Manager
Navopache Electric Cooperative, Inc.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929

Dear Mr. Miles:

We are pleased to inform you that the Rural Utilities Service (RUS) has received all the required loan documents from Navopache Electric Cooperative, Inc., (Navopache) in connection with the "AD44" Treasury Rate loan in the amount of \$33,231,000. These loan documents constitute binding agreements between Navopache and RUS.

Navopache may now requisition loan funds in accordance with RUS' budgetary control and advance of funds procedures, and the provisions of 7 CFR 1714, *Pre-Loan Policies and Procedures for Insured Electric Loans*:

- a) No more than 8 advances of funds may be made under this RUS Treasury Rate loan;
- b) A letter from an authorized official indicating the selection of an interest rate term (minimum of one year) and your most recent Form 7, Parts A and C, shall accompany the request; and
- c) Unadvanced funds for the "AD44" loan will automatically terminate on October 3, 2010.

Please contact Linda Chinault-Keel at (202) 720-0935 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Keel".

PRASHANT V. PATEL
Chief, Operations Branch
Southern Regional Division
Utilities Programs

cc: NRUCFC

1400 Independence Ave, S.W. · Washington DC 20250-0700
Web: <http://www.rurdev.usda.gov>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination, write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (800) 795-3272 (Voice) or (202) 720-6382 (TDD).

SECRETARY'S CERTIFICATE

I, Ann Menges, do hereby certify that: I am the secretary of Navopache Electric Cooperative, Inc. (hereinafter called the "Corporation"), the following are true and correct copies of resolutions duly adopted by the Board of Directors of the Corporation at the regular meeting held May 24, 2006, and entered in the minute book of the Corporation; the meeting was duly and regularly called and held in accordance with the bylaws of the Corporation; the attached forms of RUS Loan Contract, RUS Treasury Rate Note and security instrument(s) are true and exact copies of the forms thereof authorized and approved by the Board of Directors to be executed, and none of the following resolutions has been rescinded or modified;

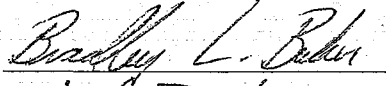
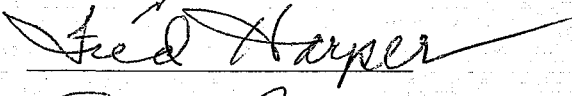
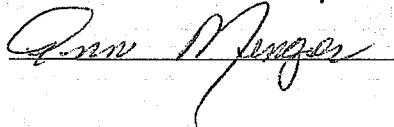
RESOLUTIONS

1. RESOLVED that the President is authorized on behalf of the Corporation to execute and deliver under its corporate seal, which the secretary is directed to affix and attest:
 - (a) as many counterparts respectively as shall be deemed advisable of an agreement with the Government, in the form of the RUS Loan Contract submitted to this meeting; and
 - (b) the note payable to the order of the Government in the principal amount of \$33,231,000.00 bearing interest at the rate referred to therein and providing for the payment of the indebtedness evidenced thereby within 35 years after the date thereof, substantially in the form of the RUS note submitted to this meeting; and
 - (c) as many counterparts as shall be deemed advisable of a Supplemental Mortgage by and among the Corporation, the Government and National Rural Utilities Cooperative Finance Corporation, which, among other things, pledges all of the Corporation's property to secure notes payable to the Government in the aggregate principal amount not to exceed \$175,000,000.00 at any one time, and a financing statement, substantially in the form of the security instruments presented to this meeting; and
2. RESOLVED that the officers of the Corporation be, and each of them is authorized in the name and on behalf of the Corporation, to execute all such instruments, make all such payments and do all such other acts as in the opinion of the officer or officers acting may be necessary or appropriate in order to carry out the purposes and intent of the forgoing resolutions.

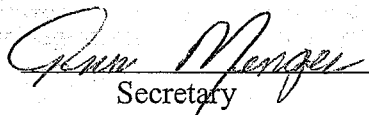
I FURTHER CERTIFY THAT each member of the Board of Directors of the Corporation was furnished with notice of said meeting in compliance with the bylaws for the Corporation.

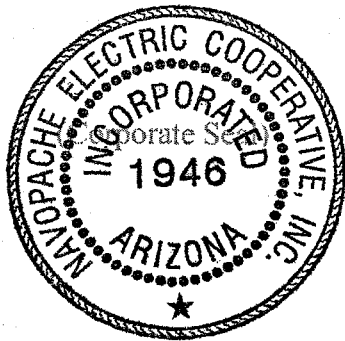
I FURTHER CERTIFY THAT the date of actual execution of the documents referred to above is May 24, 2006.

I FURTHER CERTIFY THAT the following are the names and signatures, respectively, of the officers of the Corporation identified below who validly held and occupied their respective positions on said date of actual execution of the documents.

<u>Office</u>	<u>Name</u>	<u>Signature</u>
President	Bradley L Baker	
Vice President	Fred Harper	
Secretary/Treasurer	Ann Menges	

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Corporation this 24th day of May, 2006.


Secretary



RUS PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

SUPPLEMENTAL MORTGAGE

made by and among

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929,

Mortgagor, and

UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of October 3, 2005

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY,
FIXTURES, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE
OBLIGATIONS.
MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0039819-9.

No. 8

Generated: September 22, 2005

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SUPPLEMENTAL MORTGAGE, dated as of October 3, 2005 (hereinafter sometimes called this "Supplemental Mortgage"), is made by and among NAVOPACHE ELECTRIC COOPERATIVE, INC. (hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of Arizona, and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government") and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (hereinafter called "CFC"), a corporation existing under the laws of the District of Columbia, and is intended to confer rights and benefits on both the Government and CFC, in accordance with this Supplemental Mortgage and the Original Mortgage (hereinafter defined) (the Government and CFC being hereinafter sometimes collectively referred to as the "Mortgagees").

RECITALS

WHEREAS, the Mortgagor, the Government and CFC are parties to that certain Restated Mortgage and Security Agreement (the "Original Mortgage" as identified in Schedule "A" of this Supplemental Mortgage) originally entered into among the Mortgagor, the Government acting by and through the Administrator of the Rural Utilities Service (hereinafter called "RUS"), and CFC; and

WHEREAS, the Original Mortgage as the same may have been previously supplemented, amended or restated is hereinafter referred to as the "Existing Mortgage"; and

WHEREAS, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same, and to enter into this Supplemental Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity, hereunder and under the Existing Mortgage (this Supplemental Mortgage and the Existing Mortgage, hereinafter sometimes collectively referred to as the "Mortgage"); and

WHEREAS, all of the Mortgagor's Outstanding Notes listed in Schedule "A" hereto are secured pari passu by the Existing Mortgage for the benefit of all of the Mortgagees under the Existing Mortgage; and

WHEREAS, the Existing Mortgage provides the terms by which additional pari passu obligations may be issued thereunder and further provides that the Existing Mortgage may be supplemented from time to time to evidence that such obligations are entitled to the security of the Existing Mortgage and to add additional Mortgagees; and

WHEREAS, by their execution and delivery of this Supplemental Mortgage the parties hereto do hereby secure the Additional Notes listed in Schedule "A" pari passu with the Outstanding Notes under the Existing Mortgage; and

WHEREAS, all acts necessary to make this Supplemental Mortgage a valid and binding legal instrument for the security of such notes and obligations under the terms of the Mortgage, have been in all respects duly authorized;

Now, Therefore, This Supplemental Mortgage Witnesseth: That to secure the payment of the principal of (and premium, if any) and interest on all Notes and all Notes issued hereunder according to their tenor and effect, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge, and grant a continuing security interest in for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein or any other kind or nature, except any Excepted Property, set forth on

Schedule "C" hereof owned or hereafter acquired by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following:

- A. all of those fee and leasehold interests in real property set forth in Schedule "B" hereto, subject in each case to those matters set forth in such Schedule; and
- B. all of those fee and leasehold interests in real property set forth in Schedule "B" of the Existing Mortgage or in any restatement, amendment or supplement thereto, subject in each case to those matters set forth in such Schedule; and
- C. all of the kinds, types or items of property, now owned or hereafter acquired, described as Mortgaged Property in the Existing Mortgage or in any restatement, amendment or supplement thereto as Mortgaged Property.

It is further Agreed and Covenanted That the Original Mortgage, as previously restated, amended or supplemented, and this Supplement shall constitute one agreement and the parties hereto shall be bound by all of the terms thereof and, without limiting the foregoing.

- 1. All capitalized terms not defined herein shall have the meaning given in Article I of the Existing Mortgage.
- 2. This Supplemental Mortgage is one of the Supplemental Mortgages contemplated by Article II of the Original Mortgage.
- 3. The Maximum Debt Limit for the Mortgage shall be as set forth in Schedule "A" hereto.

IN WITNESS WHEREOF, NAVOPACHE ELECTRIC COOPERATIVE, INC., as Mortgagor, has caused this Supplemental Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, UNITED STATES OF AMERICA, as Mortgagee and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagee, have each caused this Supplemental Mortgage to be signed in their respective names by duly authorized persons, all as of this day and year first above written.

NAVOPACHE ELECTRIC COOPERATIVE, INC.

by _____, President

(Seal)

Attest:

Secretary

Executed by the Mortgagor
in the presence of:

Witnesses

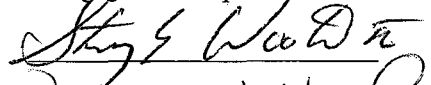
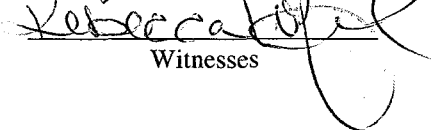
UNITED STATES OF AMERICA

by



Acting Administrator
of the
Rural Utilities Service

Executed by United States of America,
Mortgagee, in the presence of:



Witnesses

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION

by 

Assistant Secretary-Treasurer

ROBERT D STEPHENS


(SEAL)

Attest: 

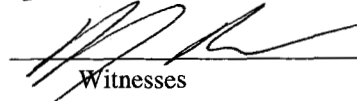
EILEEN ICIEK

Assistant Secretary-Treasurer

Executed by the above-named, Mortgagee, in the
presence of:



BRUCE MACNEIL


Witnesses

NIELS POULSEN

)

)

)

themselves to be the President and Secretary, respectively, of Navopache Electric Cooperative, Inc., a corporation, and that they, as such President and Secretary, being authorized so to do, executed the foregoing instrument, for the purposes therein contained, by signing the name of the corporation by themselves as President and Secretary.

Notary Public

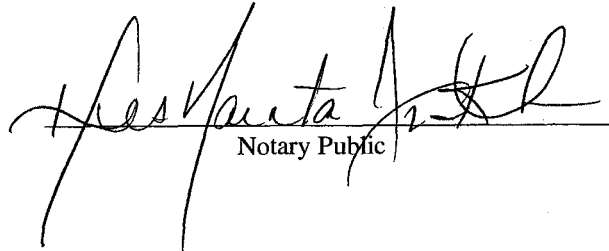
My commission expires:

DISTRICT OF COLUMBIA

) SS

On this 29th day of September, 2005, personally appeared before me
CURTIS M. ANDERSON **Acting**, who, being duly sworn, did say that he is the Administrator of
the Rural Utilities Service, an agency of the United States of America, and acknowledged to me that, acting under a
delegation of authority duly given and evidenced by law and presently in effect, he executed said instrument as the
act and deed of the United States of America for the uses and purposes therein mentioned.

IN TESTIMONY WHEREOF I have heretofore set my hand and official seal the day and year last above
written.


Notary Public

(Notarial Seal)

DeShaunta L. Franklin
Notary Public, District of Columbia
My commission expires: My Commission Expires 9-30-2010

COMMONWEALTH OF VIRGINIA

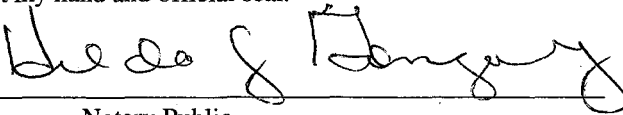
)
) SS
)

COUNTY OF FAIRFAX

On this 5th day of October, 2005, before me appeared

ROBERT D. STEPHENS, to me personally known, who, being by me
duly sworn, did say that he is the ASSISTANT SECRETARY-TREASURER of the National Rural Utilities
Cooperative Finance Corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said
corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of
directors and said ASSISTANT SECRETARY-TREASURER acknowledged said instrument to be the free act and
deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.



Notary Public

(Notarial Seal)

Hilda J. Gonzalez
NOTARY PUBLIC
Commonwealth of Virginia
My Commission Expires 12/31/2008

My commission expires: _____

Supplemental Mortgage Schedule A - Part One

Maximum Debt Limit and Other Information

1. The Maximum Debt Limit is \$175,000,000.00.
2. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows:

<u>Instrument Title</u>	<u>Instrument Date</u>
Restated Mortgage and Security Agreement	August 1, 2003

3. The Outstanding Notes referred to in the fourth WHEREAS clause above that are Government Notes are more particularly described as follows:

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate</u> ¹
R	\$1,217,000.00	23 Aug 1967	27 Aug 2008	2.00
X6	\$3,561,000.00	26 Jan 1983	26 Jan 2018	5.00
Y6	\$6,058,000.00	5 Mar 1987	5 Mar 2022	5.00
Z6	\$3,532,000.00	3 Mar 1993	3 Mar 2028	5.00
AA42	\$8,329,663.00	1 Aug 1996	1 Aug 2031	5.00
AB8 ²	\$24,571,000.00	1 Nov 2002	31 Dec 2036	V
AC8 ³	\$3,145,000.00	1 Aug 2003	31 Dec 2034	V

4. The Additional Notes described in the sixth WHEREAS clause above are more particularly described as follows:

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate</u> ⁴
AD44	\$33,231,000.00	3 Oct 2005	3 Oct 2040	V

¹V=variable interest rate calculated by RUS pursuant to title 7 of the Code of Federal Regulations or by the Secretary of Treasury. CFC=an interest rate which may be fixed or variable from time to time as provided in the CFC Loan Agreement pertaining to a loan which has been made by CFC and guaranteed by RUS. CoBank=an interest rate which may be fixed or variable from time to time as provided in the CoBank Loan Agreement pertaining to a loan which has been made by CoBank and guaranteed by RUS.

²In addition to this note which the Mortgagor has issued to FFB, the Mortgagor has also issued a corresponding promissory note to RUS designated as the certain "Reimbursement Note" bearing even date therewith. Such Reimbursement Note is payable to the Government on demand and evidences the Mortgagor's obligation immediately to repay RUS, any payment which RUS may make pursuant to the RUS guarantee of such FFB note, together with interest, expenses and penalties (all as described in such Reimbursement Note). Such Reimbursement Note is an "Additional Note issued to the Government" for purposes of this Part One of Schedule A of this Supplemental Mortgage and is entitled to all of the benefits and security of the Mortgage.

³See footnote 2 in this Schedule A.

⁴See footnote 1 in this Schedule A.

SCHEDULE A: Part Two

The outstanding secured obligations of the Mortgagor referred to in the fourth WHEREAS clause above are evidenced by the Original Notes described below:

ORIGINAL NOTES issued to CFC

<u>CFC Loan Designation</u>	<u>Face Amount of Note</u>	<u>Note Date</u>	<u>Maturity Date</u>
AZ013-C-9002	\$662,000.00	10/04/1974	10/04/2009
AZ013-C-9004	\$440,000.00	02/20/1976	02/20/2011
AZ013-C-9007	\$1,401,000.00	07/18/1977	07/18/2012
AZ013-C-9011	\$430,000.00	04/25/1979	04/25/2014
AZ013-C-9014	\$1,399,000.00	11/26/1980	11/26/2015
AZ013-C-9017	\$1,607,000.00	01/26/1983 (substituted 11/18/1987)	01/26/2018
AZ013-C-9018	\$2,704,167.00	03/05/1987	03/05/2022
AZ013-C-9019	\$1,559,794.00	03/03/1993	03/03/2028
AZ013-C-9020	\$4,792,557.00	09/10/2003	12/30/2015

Supplemental Mortgage Schedule B

Property Schedule

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ATTACHMENT B

Debtor: Navopache Electric Cooperative, Inc.

1. A certain tract of land described under one survey, which consolidates properties purchased from various individuals, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 336, Pages 616-617; (Lakeside Headquarters)
2. A certain tract of land described in a certain deed, dated May 26, 1950, by M. V. Gibbons and Mary H. Gibbons, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Book 31 of Deeds, Pages 207-208; (St Johns Office and Yard)
3. A certain tract of land described in a certain deed, dated March 9, 1962, by Roland S. Hamblin and Josephine W. Hamblin, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 51, Page 393; (Eagar Substation)
4. A certain tract of land described in a certain deed, dated March 24, 1965, by F. D. McCarty and his wife Mrs. F. D. McCarty, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Catron County, Reserve, New Mexico, in Volume M of Deeds, Page 34; (Reserve Office and Yard)
5. A certain tract of land described in a certain deed, dated May 28, 1974, by the Town of Springerville, Arizona, by Jack Becker, Vice Mayor, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 191, Page 564; (Springerville Office and Yard)
6. A certain tract of land described in a certain deed, dated March 31, 1975, by Melvin C. Greer and Elenor Greer, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 210, Page 188; (St. Johns Substation)
7. A certain tract of land described in a certain deed, dated June 18, 1975, by Jay M. Patterson and Jane R Patterson, his wife; Charles A. Patterson and Ruthe U. Patterson, his wife; Rob Roy Patterson and Diane Patterson, his wife; and Dorothy P Bast, a divorced woman, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 212, Page 448; (Concho Substation)

8. A certain tract of land described in a certain deed, dated July 29, 1981, by Nu West Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 670, Pages 138-142; (Pinetop Lakes Substation)
9. A certain tract of land described in a certain deed, dated November 3, 1988, by Overgaard Associates, Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 958, Pages 214-223; (Overgaard Office and Yard)
10. A certain tract of land described in a certain deed, dated February 17, 1994, by J. Harris Crosby, as President of Escudilla Cattle Co., a Limited Partnership, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, as Instrument #94007305, Book 768, Page 530; (Nutrioso Substation)
11. A certain tract of land described in a certain deed, dated April 1, 2005, by the Town of Pinetop/Lakeside Municipal Property Corporation, by Russ E Evans, President, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Recording #2005-09373; (Property to be used for New Headquarters)



0000049395

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

MAY 05 2006

DOCKETED BY

AM

IN THE MATTER OF THE APPLICATION OF
NAVOPACHE ELECTRIC COOPERATIVE, INC.
AN ARIZONA NON-PROFIT CORPORATION,
FOR APPROVAL OF A RUS GUARANTEED FFB
LOAN IN THE AMOUNT OF \$33,231,000 TO
FUND THE CONSTRUCTION OF FACILITIES.

DOCKET NO. E-01787A-05-0719

DECISION NO. 68691

ORDER

Open Meeting
May 2 and 3, 2006
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On October 12, 2005, Navopache Electric Cooperative, Inc., an Arizona nonprofit corporation, ("Navopache" or "Company") filed an application with the Commission requesting authorization to borrow \$33,231,000 from the United States of America, Rural Utilities Service Guaranteed Federal Financing Bank ("RUS/FFB") to finance plant construction according to Navopache's construction work plan for 2005-2008 ("Work Plan").

2. Navopache published notice of the Application in the December 30, 2005 edition of the *White Mountain Independent*, the January 3, 2006 edition of *The Payson Roundup*, the January 11, 2006 edition of the *Arizona Silver Belt*, the February 3, 2006 edition of the *Mountain Times*, and the February 8, 2006 edition of *The Copper Era*, all newspapers of general circulation in its service territory.

3. On March 21, 2006, the Commission's Utilities Division Staff ("Staff") filed a Staff Report recommending conditional approval of Navopache's Application.

1 4. Navopache is a Class "A" cooperative Arizona public service corporation providing
2 electric distribution service to approximately 30,000 member-customers in parts of Navajo, Apache,
3 Greenlee and Gila counties pursuant to authority granted by the Commission. Navopache also
4 provides electric service to member-customers in Catron County in New Mexico. Navopache does
5 not own any major electrical generating capacity, but receives its power supply under an all-
6 requirements contract with Public Service Company of New Mexico.

7 5. Staff reviewed Navopache's Work Plan. In assessing the Work Plan, Staff analyzed
8 whether the Work Plan adequately addresses the needs of the projected customer and load growth in
9 Navopache's service territory; whether the Work Plan's capital expenditures on transmission and
10 distribution infrastructure upgrades and new additions are appropriate and reasonable; and whether
11 Navopache is operating and maintaining its electric system in a reliable manner.

12 6. Based on its engineering analysis, Staff concluded that the capital projects included in
13 Navopache's Work Plan are appropriate to the projected demand of Navopache's new load growth
14 and will help ensure system reliability through the upgrades of existing electric facilities, replacement
15 of aged underground cables, and the addition of new transmission and distribution facilities. Staff
16 also concluded that the costs associated with the projects appear to be reasonable, but stated that its
17 conclusion does not imply a specific treatment for rate base or rate making purposes.

18 7. As of December 31, 2004, Navopache's capital structure consisted of approximately
19 3.7 percent short-term debt, 71.5 percent long-term debt, and 24.9 percent equity. The proposed
20 RUS/FFB debt will have the effect of decreasing the Company's short-term debt from 3.7 percent to
21 2.6 percent, and increasing its long-term debt from 71.5 percent to 82.5 percent.

22 8. Based upon Navopache's December 31, 2004 financial statement, Staff calculates
23 Navopache's current Times Interest Earned Ratio ("TIER") to be 2.33 and its Debt Service Coverage
24 ("DSC") ratio to be 1.84.¹

25 9. Based upon its pro forma adjustments to Navopache's December 31, 2004 financial

26 ¹ The TIER represents the number of times earnings will cover interest expense on long-term debt. A TIER ratio greater
27 than 1.0 means that operating income is greater than interest expense.

28 The DSC ratio represents the number of times internally generated cash will cover required principal and interest
payments on long-term debt. A DSC ratio greater than 1.0 indicates that operating cash flow is sufficient to cover debt
obligations.

1 statement, Staff estimates that issuance of the entire proposed debt amortized over 35 years, with
2 interest calculated at 5.25 percent per annum, would reduce Navopache's TIER from 2.33 to 1.06 and
3 would reduce its DSC from 1.84 to 1.13. The RUS/FFB requires that both ratios be maintained at
4 1.25.

5 10. Staff states that as of January 30, 2006, Navopache has no outstanding compliance
6 issues with the Commission.

7 11. Staff concludes that the proposed financing is consistent with sound financial
8 practices, is compatible with the public interest, and will not impair Navopache's ability to perform
9 its duty as a public service corporation, if Navopache adheres to plans to increase its equity to 30
10 percent of capital and to increase its TIER and DSC ratios to a minimum of 1.25. Staff recommends
11 the following:

12 a. that the Commission authorize Navopache's request to borrow an amount not
13 to exceed \$33,231,000 under the terms and conditions proposed and for the purposes
14 described in the application;

15 b. that Navopache be authorized to grant liens in favor of the lender as required to
16 secure the borrowings authorized;

17 c. that Navopache be authorized to engage in any transactions and to execute any
18 documents necessary to effectuate the authorizations granted;

19 d. that Navopache be ordered to file a capital plan that is satisfactory to Staff,
20 within 90 days of the decision in this matter, as a compliance item with Commission
21 Docket Control, to achieve and maintain equity at no less than 30 percent of total
22 capital;

23 e. that Navopache be ordered to file a plan that is satisfactory to Staff, within 90
24 days of the decision in this matter, as a compliance item with Commission Docket
25 Control, and adhere to the plan, to increase its TIER and DSC to a minimum of 1.25;
26 and

27 f. that Navopache be ordered to file, within 90 days of the decision in this matter,
28 with Commission Docket Control as a compliance item, one copy of executed loan

documents.

12. Staff's recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. Navopache is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

2. The Commission has jurisdiction over Navopache and the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. With the conditions imposed herein, the financing approved herein is for lawful purposes within Navopache's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Navopache of service as a public service corporation, and will not impair Navopache's ability to perform that service.

5. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and is not reasonably chargeable to operating expenses or to income.

6. It is reasonable and in the public interest to authorize Navopache issue to long-term debt authorized herein subject to the conditions recommended by Staff.

ORDER

IT IS THEREFORE ORDERED that Navopache Electric Cooperative, Inc. is hereby authorized to borrow from the Rural Utilities Service Guaranteed Federal Financing Bank, at the rates described in the application and in the March 21, 2006 Staff Report, an amount not to exceed \$33,231,000, conditioned on compliance with the requirements set forth in the two following Ordering Paragraphs.

IT IS FURTHER ORDERED that Navopache shall file within 90 days, as a compliance item with Commission Docket Control, a capital plan that is satisfactory to Staff, to achieve and maintain equity at no less than 30 percent of total capital.

IT IS FURTHER ORDERED that Navopache shall file, within 90 days, as a compliance item with Commission Docket Control, a plan that is satisfactory to Staff, to increase its TIER and DSC

ratio to a minimum of 1.25, and shall adhere to the plan.

IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. is authorized to grant liens in favor of the lender as required to secure the borrowings authorized herein.

IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. is authorized to engage in any transaction and to execute any documents necessary to effectuate the authorization granted herein.

IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. shall use the financing approved herein for the purposes set forth in the application.

IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. shall file as a compliance item with Commission Docket Control, within 90 days of the funding of the new loan, one copy of executed loan documents.

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1 IT IS FURTHER ORDERED that approval of the financing set forth herein does not
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
7 *Jeffrey M. Hatch-Miller* *Wally Miller*
8 CHAIRMAN COMMISSIONER
9
10 *[Signature]* *Laura [Signature]* *[Signature]*
11 COMMISSIONER COMMISSIONER COMMISSIONER

12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 5th day of May, 2006.

17 *[Signature]*
BRIAN C. McNEIL
EXECUTIVE DIRECTOR

18 DISSENT _____

20 DISSENT _____

21 TW:mlj

1 SERVICE LIST FOR:

NAVOPACHE ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.:

E-01787A-05-0719

3 Michael A. Curtis

William P. Sullivan

4 Larry K. Udall

CURTIS, GOODWIN, SULLIVAN, UDALL & SCHWAB

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Christopher Kempley, Chief Counsel

7 Legal Division

ARIZONA CORPORATION COMMISSION

8 1200 West Washington Street

9 Phoenix, AZ 85007

Ernest G. Johnson, Director

10 Utilities Division

ARIZONA CORPORATION COMMISSION

11 1200 West Washington Street

12 Phoenix, AZ 85007

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RUS Project Designation:
ARIZONA 13-AD44 NAVAJO

RUS LOAN CONTRACT

An Agreement Made By And Between
NAVOPACHE ELECTRIC COOPERATIVE, INC.,
as Borrower
and
UNITED STATES OF AMERICA,
as Lender

Dated as of October 3, 2005

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

RUS LOAN CONTRACT

AGREEMENT, dated as of October 3, 2005, between NAVOPACHE ELECTRIC COOPERATIVE, INC. ("Borrower"), a corporation organized and existing under the laws of the State of Arizona (the "State"), and the UNITED STATES OF AMERICA, acting by and through the Administrator of the Rural Utilities Service ("RUS").

RECITALS

The Borrower has applied to RUS for financial assistance for the purpose(s) set forth in Schedule 1 hereto.

RUS is willing to extend financial assistance to the Borrower pursuant to the Rural Electrification Act of 1936, as amended, on the terms and conditions stated herein.

THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, and other good and valuable consideration, the parties hereto agree and bind themselves as follows:

ARTICLE I

DEFINITIONS

Capitalized terms that are not defined herein shall have the meanings as set forth in the Mortgage. The terms defined herein include the plural as well as the singular and the singular as well as the plural.

Act shall mean the Rural Electrification Act of 1936, as amended.

Advance or Advances shall mean advances of Loan funds to the Borrower which have been made or approved by RUS pursuant to the terms and conditions of this Agreement.

Agreement shall mean this Loan Contract together with all schedules and exhibits and also any subsequent supplements or amendments.

Business Day shall mean any day that RUS is open for business.

Contemporaneous Loan shall mean any loan which the Borrower has used to satisfy RUS Regulations or loan conditions requiring that supplemental financing be obtained in order to obtain a loan from RUS. Any loan used to refinance or refund a Contemporaneous Loan is also considered to be a Contemporaneous Loan.

Coverage Ratios shall mean, collectively, the following financial ratios: (i) TIER of 1.25; (ii) Operating TIER of 1.1; (iii) DSC of 1.25; and Operating DSC of 1.1.

Debt Service Coverage Ratio ("DSC") shall have the meaning provided in the Mortgage.

Distributions shall mean for the Borrower to, in any calendar year, declare or pay any dividends, or pay or determine to pay any patronage refunds, or retire any patronage capital or make any other Cash Distributions, to its members, stockholders or consumers; provided, however, that for the purposes of this Agreement a "Cash Distribution" shall be deemed to include any general cancellation or abatement of charges for electric energy or services furnished by the Borrower, but not the repayment of a membership fee upon termination of a membership or the rebate of an abatement of wholesale power costs previously incurred pursuant to an order of a state regulatory authority or a wholesale power cost adjustment clause or similar power pricing agreement between the Borrower and

a power supplier.

Electric System shall have the meaning as defined in the Mortgage.

Equity shall mean the Borrower's total margins and equities computed pursuant to RUS Accounting Requirements but excluding any Regulatory Created Assets.

Event of Default shall have the meaning as defined in Section 7.1.

Final Maturity Date shall have the meaning as defined in the Note.

Independent when used with respect to any specified person or entity means such a person or entity who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Borrower or in any affiliate of the Borrower and (3) is not connected with the Borrower as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

Interest Expense shall mean the interest expense of the Borrower computed pursuant to RUS Accounting Requirements.

Loan shall mean the loan described in Article III which is being made or guaranteed pursuant to the RUS Commitment in furtherance of the objectives of the Act.

Loan Documents shall mean, collectively, this Agreement, the Mortgage and the Note and shall also include any Reimbursement Note.

Long-Term Debt shall mean the total of all amounts included in the long-term debt of the Borrower pursuant to RUS Accounting Requirements.

Monthly Payment Date shall have the meaning as defined in the Note.

Mortgage shall have the meaning as described in Schedule 1 hereto.

Mortgaged Property shall have the meaning as defined in the Mortgage.

Net Utility Plant shall mean the amount constituting the Total Utility Plant of the Borrower, less depreciation, computed in accordance with RUS Accounting Requirements.

Note shall mean a promissory note or notes executed by the Borrower in the form of Exhibit A hereto, and any note executed and delivered to RUS or to the Federal Financing Bank (FFB) to refund, or in substitution for such a note. If the RUS Commitment includes both a commitment by RUS to make a loan and also a commitment by RUS to guarantee a loan made by FFB, then Exhibit A includes both forms. Note shall also mean any promissory note or notes executed by the Borrower and delivered to a third party in connection with a loan that RUS has guaranteed as to payment pursuant to a master loan guaranty agreement.

Operating DSC or ODSC shall mean Operating Debt Service Coverage calculated as:

$$\text{ODSC} = \frac{A+B+C}{D}$$

where:

All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and

RUS Form 7;

A = Depreciation and Amortization Expense of the Electric System;

B = Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which the Restricted Rentals of the Electric System exceed 2 percent of the Borrower's Equity;

C = Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System; and

D = Debt service billed which equals the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt of the Electric System during the calendar year, plus 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity.

Operating TIER or OTIER shall mean Operating Times Interest Earned Ratio calculated as:

$$\text{OTIER} = \frac{A+B}{A}$$

where:

All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS Form 7;

A = Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity; and

B = Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System.

Permitted Debt shall have the meaning as defined in Section 6.13.

Prior Loan Contracts shall mean all loan and loan guarantee agreements, if any, previously entered into by and between RUS and the Borrower.

Regulatory Created Assets shall mean the sum of any amounts properly recordable as unrecovered plant and regulatory study costs or as other regulatory assets, computed pursuant to RUS Accounting Requirements.

Reimbursement Note shall mean any demand note of the Borrower which evidences the Borrower's obligation to immediately repay RUS any payments which RUS makes on behalf of the Borrower on the Note pursuant to a RUS guaranty if one has been provided under the terms of the RUS Commitment.

RUS Accounting Requirements shall mean any system of accounts prescribed by RUS Regulations as such RUS Accounting Requirements exist at the date of applicability thereof.

RUS Commitment shall have the meaning as defined in Schedule 1 hereto.

RUS Regulations shall mean regulations of general applicability published by RUS from time to time as they exist at the date of applicability thereof, and shall also include any regulations of other federal entities which RUS is required by law to implement.

Special Construction Account shall have the meaning as defined in Section 5.21.

Subsidiary shall mean a corporation that is a subsidiary of the Borrower and subject to the Borrower's control, as defined by RUS Accounting Requirements.

Termination Date shall mean the date specified in the Note after which no further Advances shall be made under the terms of the RUS Commitment.

Times Interest Earned Ratio ("TIER") shall have the meaning provided in the Mortgage.

Total Assets shall mean an amount constituting the total assets of the Borrower as computed pursuant to RUS Accounting Requirements, but excluding any Regulatory Created Assets.

Total Utility Plant shall mean the amount constituting the total utility plant of the Borrower computed in accordance with RUS Accounting Requirements.

Utility System shall have the meaning as defined in the Mortgage.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties.

To induce RUS to make the Loan, and recognizing that RUS is relying hereon, the Borrower represents and warrants as follows:

- (a) **Organization; Power, Etc. The Borrower:** (i) is an organization of the type and organized in the jurisdiction set forth on the first page hereof, and is duly organized, validly existing, and in good standing under the laws of its state of incorporation; (ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business makes such qualification necessary; (iii) has all requisite corporate and legal power to own and operate its assets and to carry on its business and to enter into and perform the Loan Documents; (iv) has duly and lawfully obtained and maintained all licenses, certificates, permits, authorizations, approvals, and the like which are material to the conduct of its business or which may be otherwise required by law; and (v) is eligible to obtain the financial assistance from RUS contemplated by this Agreement.
- (b) **Authority.** The execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents and the performance of the transactions contemplated thereby have been duly authorized by all necessary corporate action and shall not violate any provision of law or of the Articles of Incorporation or By-Laws of the Borrower or result in a breach of, or constitute a default under, any agreement, indenture or other instrument to

which the Borrower is a party or by which it may be bound.

- (c) Consents. No consent, permission, authorization, order, or license of any governmental authority is necessary in connection with the execution, delivery, performance, or enforcement of the Loan Documents, except (i) such as have been obtained and are in full force and effect and (ii) such as have been disclosed on Schedule 1 hereto.
- (d) Binding Agreement. Each of the Loan Documents is, or when executed and delivered shall be, the legal, valid, and binding obligation of the Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally.
- (e) Compliance with Laws. The Borrower is in compliance in all material respects with all federal, state, and local laws, rules, regulations, ordinances, codes, and orders (collectively, "Laws"), the failure to comply with which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents, except as the Borrower has disclosed to RUS in writing.
- (f) Litigation. There are no pending legal, arbitration, or governmental actions or proceedings to which the Borrower is a party or to which any of its property is subject which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties, profits or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents, and to the best of the Borrower's knowledge, no such actions or proceedings are threatened or contemplated, except as the Borrower has disclosed to RUS in writing.
- (g) Title to Property. As to property which is presently included in the description of Mortgaged Property, the Borrower holds good and marketable title to all of its real property and owns all of its personal property free and clear of any Lien except Permitted Encumbrances or Liens permitted under the Mortgage.
- (h) Financial Statements; No Material Adverse Change; Etc. All financial statements submitted to RUS in connection with the application for the Loan or in connection with this Agreement fairly and fully present the financial condition of the Borrower and the results of the Borrower's operations for the periods covered thereby and are prepared in accordance with RUS Accounting Requirements consistently applied. Since the dates thereof, there has been no material adverse change in the financial condition or operations of the Borrower. All budgets, projections, feasibility studies, and other documentation submitted by the Borrower to RUS are based upon assumptions that are reasonable and realistic, and as of the date hereof, no fact has come to light, and no event or transaction has occurred, which would cause any assumption made therein not to be reasonable or realistic.
- (i) Principal Place of Business; Records. The principal place of business and chief executive office of the Borrower is at the address of the Borrower shown on Schedule 1 attached hereto.
- (j) Location of Properties. All property owned by the Borrower is located in the counties identified in Schedule 1 hereto.
- (k) Subsidiaries. The Borrower has no subsidiary, except as the Borrower has disclosed to RUS in writing.

- (l) Legal Name. The Borrower's exact legal name is that indicated on the signature page.
- (m) Organizational Number. Schedule 1 hereto accurately sets forth the Borrower's organizational identification number or accurately states that the Borrower has none.
- (n) Defaults Under Other Agreements. The Borrower is not in default under any agreement or instrument to which it is a party or under which any of its properties are subject that is material to its financial condition, operations, properties, profits, or business.
- (o) Survival. All representations and warranties made by the Borrower herein or made in any certificate delivered pursuant hereto shall survive the making of the Advances and the execution and delivery to RUS of the Note.

ARTICLE III

LOAN

Section 3.1. Advances.

RUS agrees to make, or in the case of any loan guaranteed by RUS, approve, and the Borrower agrees to request, on the terms and conditions of this Agreement, Advances from time to time in an aggregate principal amount not to exceed the RUS Commitment. On the Termination Date, RUS may stop advancing funds and limit the RUS Commitment to the amount advanced prior to such date. The obligation of the Borrower to repay the Advances shall be evidenced by the Note in the principal amount of the unpaid principal amount of the Advances from time to time outstanding. The Borrower shall give RUS written notice of the date on which each Advance is to be made.

Section 3.2. Interest Rate and Payment.

Each Note shall be payable and bear interest as follows:

- (a) Payments and Amortization. Principal shall be amortized in accordance with one or more methods stated in Schedule 1 hereto and more fully described in the form of each Note attached hereto as Exhibit A.
- (b) Application of Payments. All payments which the Borrower sends to RUS on any outstanding obligation owed to or guaranteed by RUS shall be applied in the manner provided in the Borrower's Loan Documents to which such payments relate and in a manner consistent with RUS policies, practices, and procedures for obligations that have been similarly classified by RUS.
- (c) Electronic Funds Transfer. Except as otherwise prescribed by RUS, the Borrower shall make all payments on each Note utilizing electronic funds transfer procedures as specified by RUS.
- (d) Fixed or Variable Rate. Each Note shall bear interest at either a fixed or variable rate in accordance with one or more methods stated in Schedule 1 hereto and as more particularly described in the form of each Note attached hereto as Exhibit A.

Section 3.3. Prepayment.

The Borrower has no right to prepay a Note in whole or in part except such rights, if any, as are

expressly provided for in a Note or applicable federal statutes. However, prepayment of a Note (and any penalties) shall be mandatory under Section 5.3 hereof if the Borrower has used a Contemporaneous Loan in order to qualify for the RUS Commitment, and later prepays the Contemporaneous Loan.

ARTICLE IV

CONDITIONS OF LENDING

Section 4.1. General Conditions.

The obligation of RUS to make or, in the case of any Loan guaranteed by RUS, approve to be made any Advance hereunder is subject to satisfaction of each of the following conditions precedent on or before the date of such Advance:

- (a) Legal Matters. All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for RUS.
- (b) Loan Documents. That RUS receive duly executed originals of this Agreement and the other Loan Documents.
- (c) Authorization. That RUS receive evidence satisfactory to it that all corporate documents and proceedings of the Borrower necessary for duly authorizing the execution, delivery and performance of the Loan Documents have been obtained and are in full force and effect.
- (d) Approvals. That RUS receive evidence satisfactory to it that all consents and approvals (including without limitation the consents referred to in Section 2.1(c) of this Agreement) which are necessary for, or required as a condition of, the validity and enforceability of each of the Loan Documents have been obtained and are in full force and effect.
- (e) Event of Default. That no Event of Default specified in Article VII and no event which, with the lapse of time or the notice and lapse of time specified in Article VII would become such an Event of Default, shall have occurred and be continuing, or shall have occurred after giving effect to the Advance on the books of the Borrower.
- (f) Continuing Representations and Warranties. That the representations and warranties of the Borrower contained in this Agreement be true and correct on and as of the date of such Advance as though made on and as of such date.
- (g) Opinion of Counsel. That RUS receive an opinion of counsel for the Borrower (who shall be acceptable to RUS) in form and content acceptable to RUS.
- (h) Mortgage Filing. The Mortgage shall have been duly recorded as a mortgage on real property, including after-acquired real property, and a financing statement shall have been duly filed, recorded and indexed as a security interest in personal property, including after acquired personal property, wherever RUS shall have requested, all in accordance with applicable law, and the Borrower shall have caused satisfactory evidence thereof to be furnished to RUS.
- (i) Wholesale Power Contract. That the Borrower shall not be in default under the terms of, or contesting the validity of, any contract for sales for resale that has been pledged by any entity to RUS as security for the repayment of any loan made or guaranteed by RUS under

the Act.

- (j) Material Adverse Change. That there has occurred no material adverse change in the business or condition, financial or otherwise, of the Borrower and nothing has occurred which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations hereunder.
- (k) Requisitions. That the Borrower shall requisition all Advances by submitting its requisition to RUS in form and substance satisfactory to RUS. Requisitions shall be made only for the purpose(s) set forth herein. The Borrower agrees to apply the proceeds of the Advances in accordance with its loan application with such modifications as may be mutually agreed.
- (l) Flood Insurance. That for any Advance used in whole or in part to finance the construction or acquisition of any building in any area identified by the Secretary of Housing and Urban Development pursuant to the Flood Disaster Protection Act of 1973 (the "Flood Insurance Act") or any rules, regulations or orders issued to implement the Flood Insurance Act ("Rules") as any area having special flood hazards, or to finance any facilities or materials to be located in any such building, or in any building owned or occupied by the Borrower and located in such a flood hazard area, the Borrower has submitted evidence, in form and substance satisfactory to RUS, or RUS has otherwise determined, that (i) the community in which such area is located is then participating in the national flood insurance program, as required by the Flood Insurance Act and any Rules, and (ii) the Borrower has obtained flood insurance coverage with respect to such building and contents as may then be required pursuant to the Flood Insurance Act and any Rules.
- (m) Compliance with Loan Contract and Mortgage. That the Borrower is in material compliance with all provisions of this Agreement and the Mortgage.

Section 4.2. Special Conditions.

The obligation of RUS to make or, in the case of any Loan guaranteed by RUS, approve to be made any Advance hereunder is also subject to satisfaction, on or before the date of such Advance, of each of the special conditions, if any, listed in Schedule 1 hereto.

ARTICLE V

AFFIRMATIVE COVENANTS

Section 5.1. Generally.

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, whether or not any Advance is outstanding, the Borrower agrees to duly observe each of the affirmative covenants contained in this Article.

Section 5.2. Annual Certificates.

- (a) Performance under Loan Documents. The Borrower shall duly observe and perform all of its obligations under each of the Loan Documents.
- (b) Annual Certification. Within ninety (90) days after the close of each calendar year, commencing with the year following the year in which the initial Advance hereunder shall have been made, the Borrower shall deliver to RUS a written statement signed by its

General Manager, stating that during such year the Borrower has fulfilled all of its obligations under the Loan Documents throughout such year in all material respects or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof.

Section 5.3. Simultaneous Prepayment of Contemporaneous Loans.

If the Borrower shall at any time prepay in whole or in part the Contemporaneous Loan described on Schedule 1, the Borrower shall prepay the RUS Note correspondingly in order to maintain the ratio that the Contemporaneous Loan bears to the RUS Commitment. If the RUS Note calls for a prepayment penalty or premium, such amount shall be paid but shall not be used in computing the amount needed to be paid to RUS under this section to maintain such ratio. In the case of Contemporaneous Loans and RUS Notes existing prior to the date of this Agreement under previous agreements, prepayments shall be treated as if governed by this section. Provided, however, in all cases prepayments associated with refinancing or refunding a Contemporaneous Loan pursuant to Article II of the Mortgage are not considered to be prepayments for purposes of this Agreement if they satisfy each of the following requirements:

- (a) Principal. The principal amount of such refinancing or refunding loan is not less than the amount of loan principal being refinanced; and
- (b) Weighted Average Life. The weighted average life of the refinancing or refunding loan is not less than the weighted average remaining life of the loan being refinanced.

Section 5.4. Rates to Provide Revenue Sufficient to Meet Coverage Ratios Requirements.

- (a) Prospective Requirement. The Borrower shall design and implement rates for utility service furnished by it to provide sufficient revenue (along with other revenue available to the Borrower in the case of TIER and DSC) (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis, the Coverage Ratios. In designing and implementing rates under this paragraph, such rates should be capable of producing at least enough revenue to meet the requirements of this paragraph under the assumption that average weather conditions in the Borrower's service territory shall prevail in the future, including average Utility System damage and outages due to weather and the related costs.
- (b) Retrospective Requirement. The average Coverage Ratios achieved by the Borrower in the 2 best years out of the 3 most recent calendar years must be not less than any of the following:

TIER =	1.25
DSC =	1.25
OTIER =	1.1
ODSC =	1.1

- (c) Prospective Notice of Change in Rates. The Borrower shall give thirty (30) days prior written notice of any proposed change in its general rate structure to RUS if RUS has requested in writing that it be notified in advance of such changes.
- (d) Routine Reporting of Coverage Ratios. Promptly following the end of each calendar year, the Borrower shall report, in writing, to RUS the TIER, Operating TIER, DSC and Operating DSC levels which were achieved during that calendar year.

- (e) Reporting Non-achievement of Retrospective Requirement. If the Borrower fails to achieve the average levels required by paragraph (b) of this section, it must promptly notify RUS in writing to that effect.
- (f) Corrective Plans. Within 30 days of sending a notice to RUS under paragraph (e) of this section, or of being notified by RUS, whichever is earlier, the Borrower in consultation with RUS, shall provide a written plan satisfactory to RUS setting forth the actions that shall be taken to achieve the required Coverage Ratios on a timely basis.
- (g) Noncompliance. Failure to design and implement rates pursuant to paragraph (a) of this section and failure to develop and implement the plan called for in paragraph (f) of this section shall constitute an Event of Default under this Agreement in the event that RUS so notifies the Borrower to that effect under section 7.1(d) of this Agreement.

Section 5.5. Depreciation Rates.

The Borrower shall adopt as its depreciation rates only those which have been previously approved for the Borrower by RUS.

Section 5.6. Property Maintenance.

The Borrower shall maintain and preserve its Utility System in compliance in all material respects with the provisions of the Mortgage, RUS Regulations and all applicable laws.

Section 5.7. Financial Books.

The Borrower shall at all times keep, and safely preserve, proper books, records and accounts in which full and true entries shall be made of all of the dealings, business and affairs of the Borrower and its Subsidiaries, in accordance with any applicable RUS Accounting Requirements.

Section 5.8. Rights of Inspection.

The Borrower shall afford RUS, through its representatives, reasonable opportunity, at all times during business hours and upon prior notice, to have access to and the right to inspect the Utility System, any other property encumbered by the Mortgage, and any or all books, records, accounts, invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in anyway pertaining to its property or business, including its Subsidiaries, if any, and to make copies or extracts therefrom.

Section 5.9. Area Coverage.

- (a) The Borrower shall make diligent effort to extend electric service to all unserved persons within the service area of the Borrower who (i) desire such service and (ii) meet all reasonable requirements established by the Borrower as a condition of such service.
- (b) If economically feasible and reasonable considering the cost of providing such service and/or the effects on consumers' rates, such service shall be provided, to the maximum extent practicable, at the rates and minimum charges established in the Borrower's rate schedules, without the payment of such persons, other than seasonal or temporary consumers, of a contribution in aid of construction. A seasonal consumer is one that demands electric service only during certain seasons of the year. A temporary consumer is a seasonal or year-round consumer that demands electric service over a period of less than five years.

- (c) The Borrower may assess contributions in aid of construction provided such assessments are consistent with this section.

Section 5.10. Real Property Acquisition.

In acquiring real property, the Borrower shall comply in all material respects with the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (the "Uniform Act"), as amended by the Uniform Relocation Act Amendments of 1987, and 49 CFR part 24, referenced by 7 CFR part 21, to the extent the Uniform Act is applicable to such acquisition.

Section 5.11. "Buy American" Requirements.

The Borrower shall use or cause to be used in connection with the expenditures of funds advanced on account of the Loan only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States or any eligible country, and only such manufactured articles, materials, and supplies as have been manufactured in the United States or any eligible country substantially all from articles, materials, and supplies mined, produced or manufactured, as the case may be, in the United States or any eligible country, except to the extent RUS shall determine that such use shall be impracticable or that the cost thereof shall be unreasonable. For purposes of this section, an "eligible country" is any country that applies with respect to the United States an agreement ensuring reciprocal access for United States products and services and United States suppliers to the markets of that country, as determined by the United States Trade Representative.

Section 5.12. Power Requirements Studies.

The Borrower shall prepare and use power requirements studies of its electric loads and future energy and capacity requirements in conformance with RUS Regulations.

Section 5.13. Long Range Engineering Plans and Construction Work Plans.

The Borrower shall develop, maintain and use up-to-date long-range engineering plans and construction work plans in conformance with RUS Regulations.

Section 5.14. Design Standards, Construction Standards, and List of Materials.

The Borrower shall use design standards, construction standards, and lists of acceptable materials in conformance with RUS Regulations.

Section 5.15. Plans and Specifications.

The Borrower shall submit plans and specifications for construction to RUS for review and approval, in conformance with RUS Regulations, if the construction will be financed in whole or in part by a loan made or guaranteed by RUS.

Section 5.16. Standard Forms of Construction Contracts, and Engineering and Architectural Services Contracts.

The Borrower shall use the standard forms of contracts promulgated by RUS for construction,

procurement, engineering services and architectural services in conformance with RUS Regulations, if the construction, procurement, or services are being financed in whole or in part by a loan being made or guaranteed by RUS.

Section 5.17. Contract Bidding Requirements.

The Borrower shall follow RUS contract bidding procedures in conformance with RUS Regulations when contracting for construction or procurement financed in whole or in part by a loan made or guaranteed by RUS.

Section 5.18. Nondiscrimination.

- (a) Equal Opportunity Provisions in Construction Contracts. The Borrower shall incorporate or cause to be incorporated into any construction contract, as defined in Executive Order 11246 of September 24, 1965 and implementing regulations, which is paid for in whole or in part with funds obtained from RUS or borrowed on the credit of the United States pursuant to a grant, contract, loan, insurance or guarantee, or undertaken pursuant to any RUS program involving such grant, contract, loan, insurance or guarantee, the equal opportunity provisions set forth in Exhibit B hereto entitled Equal Opportunity Contract Provisions.
- (b) Equal Opportunity Contract Provisions Also Bind the Borrower. The Borrower further agrees that it shall be bound by such equal opportunity clause in any federally assisted construction work which it performs itself other than through the permanent work force directly employed by an agency of government.
- (c) Sanctions and Penalties. The Borrower agrees that it shall cooperate actively with RUS and the Secretary of Labor in obtaining the compliance of contractors and subcontractors with the equal opportunity clause and the rules, regulations and relevant orders of the Secretary of Labor, that it shall furnish RUS and the Secretary of Labor such information as they may require for the supervision of such compliance, and that it shall otherwise assist the administering agency in the discharge of RUS's primary responsibility for securing compliance. The Borrower further agrees that it shall refrain from entering into any contract or contract modification subject to Executive Order 11246 with a contractor debarred from, or who has not demonstrated eligibility for, Government contracts and federally assisted construction contracts pursuant to Part II, Subpart D of Executive Order 11246 and shall carry out such sanctions and penalties for violation of the equal opportunity clause as may be imposed upon contractors and subcontractors by RUS or the Secretary of Labor pursuant to Part II, Subpart D of Executive Order 11246. In addition, the Borrower agrees that if it fails or refuses to comply with these undertakings RUS may cancel, terminate or suspend in whole or in part this contract, may refrain from extending any further assistance under any of its programs subject to Executive Order 11246 until satisfactory assurance of future compliance has been received from such Borrower, or may refer the case to the Department of Justice for appropriate legal proceedings.

Section 5.19. Financial Reports.

The Borrower shall cause to be prepared and furnished to RUS a full and complete annual report of its financial condition and of its operations in form and substance satisfactory to RUS, audited and certified by Independent certified public accountants satisfactory to RUS and accompanied by a report of such audit in form and substance satisfactory to RUS. The Borrower shall also furnish to RUS from time to time such other reports concerning the financial condition or operations of the Borrower, including its Subsidiaries, as RUS may reasonably request or RUS Regulations require.

Section 5.20. Miscellaneous Reports and Notices.

The Borrower shall furnish to RUS:

- (a) Notice of Default. Promptly after becoming aware thereof, notice of: (i) the occurrence of any default; and (ii) the receipt of any notice given pursuant to the Mortgage with respect to the occurrence of any event which with the giving of notice or the passage of time, or both, could become an "Event of Default" under the Mortgage.
- (b) Notice of Non-Environmental Litigation. Promptly after the commencement thereof, notice of the commencement of all actions, suits or proceedings before any court, arbitrator, or governmental department, commission, board, bureau, agency, or instrumentality affecting the Borrower which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (c) Notice of Environmental Litigation. Without limiting the provisions of Section 5.20(b) above, promptly after receipt thereof, notice of the receipt of all pleadings, orders, complaints, indictments, or other communications alleging a condition that may require the Borrower to undertake or to contribute to a cleanup or other response under laws relating to environmental protection, or which seek penalties, damages, injunctive relief, or criminal sanctions related to alleged violations of such laws, or which claim personal injury or property damage to any person as a result of environmental factors or conditions for which the Borrower is not fully covered by insurance, or which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (d) Notice of Change of Place of Business. Promptly in writing, notice of any change in location of its principal place of business or the office where its records concerning accounts and contract rights are kept.
- (e) Regulatory and Other Notices. Promptly after receipt thereof, copies of any notices or other communications received from any governmental authority with respect to any matter or proceeding which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (f) Material Adverse Change. Promptly, notice of any matter which has resulted or may result in a material adverse change in the condition, financial or otherwise, operations, properties, or business of the Borrower, or the ability of the Borrower to perform its obligations under the Loan Documents.
- (g) Assignment of Organizational Number. If the Borrower does not have an organizational identification number and later has one assigned to it, the Borrower will promptly notify RUS of such assigned organizational identification number.
- (h) Other Information. Such other information regarding the condition, financial or otherwise, or operations of the Borrower as RUS may, from time to time, reasonably request.

Section 5.21. Special Construction Account.

The Borrower shall hold all moneys advanced to it by RUS hereunder in trust for RUS and shall deposit such moneys promptly after the receipt thereof in a bank or banks which meet the requirements of Section 6.7 of this Agreement. Any account (hereinafter called "Special Construction Account") in which any such moneys shall be deposited shall be insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS and shall be designated by the corporate name of the Borrower followed by the words "Trustee, Special Construction Account." Moneys in any Special Construction Account shall be used solely for the construction and operation of the Utility System and may be withdrawn only upon checks, drafts, or orders signed on behalf of the Borrower and countersigned by an executive officer thereof.

Section 5.22. Additional Affirmative Covenants.

The Borrower also agrees to comply with any additional affirmative covenant(s) identified in Schedule 1 hereto.

ARTICLE VI

NEGATIVE COVENANTS

Section 6.1. General.

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, whether or not any Advance is outstanding hereunder, the Borrower shall duly observe each of the negative covenants set forth in this Article.

Section 6.2. Limitations on System Extensions and Additions.

- (a) The Borrower shall not extend or add to its Electric System either by construction or acquisition without the prior written approval of RUS if the construction or acquisition is financed or will be financed, in whole or in part, by a RUS loan or loan guarantee.
- (b) The Borrower shall not extend or add to its Electric System with funds from other sources without prior written approval of RUS in the case of:
 - (1) Generating facilities if the combined capacity of the facilities to be built, procured, or leased, including any future facilities included in the planned project, will exceed the lesser of 5 Megawatts or 30 percent of the Borrower's Equity;
 - (2) Existing electric facilities or systems in service whose purchase price, or capitalized value in the case of a lease, exceeds ten percent of the Borrower's Net Utility Plant; and
 - (3) Any project to serve a customer whose annual kWh purchases or maximum annual kW demand is projected to exceed 25 percent of the Borrower's total kWh sales or maximum kW demand in the year immediately preceding the acquisition or start of construction of facilities.

Section 6.3. Limitations on Changing Principal Place of Business.

The Borrower shall not change its principal place of business or keep property in a county not shown on a schedule to the Mortgage if the change would cause the lien in favor of RUS to become unperfected or fail to become perfected, as the case may be, unless, prior thereto, the

Borrower shall have taken all steps required by law in order to assure that the lien in favor of RUS remains or becomes perfected, as the case may be, and, in either event, such lien has the priority accorded by the Mortgage.

Section 6.4. Limitations on Employment and Retention of Manager.

At any time any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing the Borrower shall not employ any general manager of the Utility System or the Electric System or any person exercising comparable authority to such a manager unless such employment shall first have been approved by RUS. If any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing and RUS requests the Borrower to terminate the employment of any such manager or person exercising comparable authority, or RUS requests the Borrower to terminate any contract for operating the Utility System or the Electric System, the Borrower shall do so within thirty (30) days after the date of such notice. All contracts in respect of the employment of any such manager or person exercising comparable authority, or for the operation of the Utility System or the Electric System, shall contain provisions to permit compliance with the foregoing covenants.

Section 6.5. Limitations on Certain Types of Contracts.

Without the prior approval of RUS in writing, the Borrower shall not enter into any of the following contracts:

- (a) Construction contracts. Any contract for construction or procurement or for architectural and engineering services in connection with its Electric System if the project is financed or will be financed, in whole or in part, by a RUS loan or loan guarantee;
- (b) Large retail power contracts. Any contract to sell electric power and energy for periods exceeding two (2) years if the kWh sales or kW demand for any year covered by such contract shall exceed 25 percent of the Borrower's total kWh sales or maximum kW demand for the year immediately preceding the execution of such contract;
- (c) Wholesale power contracts. Any contract to sell electric power or energy for resale and any contract to purchase electric power or energy that, in either case, has a term exceeding two (2) years;
- (d) Power supply arrangements. Any interconnection agreement, interchange agreement, wheeling agreement, pooling agreement or similar power supply arrangement that has a term exceeding two (2) years;
- (e) System management and maintenance contracts. Any contract for the management and operation of all or substantially all of its Electric System; or
- (f) Other contracts. Any contracts of the type described on Schedule 1.

Section 6.6. Limitations on Mergers and Sale, Lease or Transfer of Capital Assets.

- (a) The Borrower shall not consolidate with, or merge, or sell all or substantially all of its business or assets, to another entity or person except to the extent it is permitted to do so under the Mortgage. The exception contained in this paragraph (a) is subject to the additional limitation set forth in paragraph (b) of this section.

- (b) The Borrower shall not, without the written approval of RUS, voluntarily or involuntarily sell, convey or dispose of any portion of its business or assets (including, without limitation, any portion of its franchise or service territory) to another entity or person if such sale, conveyance or disposition could reasonably be expected to reduce the Borrower's existing or future requirements for energy or capacity being furnished to the Borrower under any wholesale power contract which has been pledged as security to RUS.

Section 6.7. Limitations on Using non-FDIC Insured Depositories.

Without the prior written approval of RUS, the Borrower shall not place the proceeds of the Loan or any loan which has been made or guaranteed by RUS in the custody of any bank or other depository that is not insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS.

Section 6.8. Limitation on Distributions.

Without the prior written approval of RUS, the Borrower shall not in any calendar year make any Distributions (exclusive of any Distributions to the estates of deceased natural patrons) to its members, stockholders or consumers except as follows:

- (a) Equity above 30%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 30% of its Total Assets; or
- (b) Equity above 20%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 20% of its Total Assets and the aggregate of all Distributions made during the calendar year when added to such Distribution shall be less than or equal to 25% of the prior year's margins.

Provided however, that in no event shall the Borrower make any Distributions if there is unpaid when due any installment of principal of (premium, if any) or interest on any of its payment obligations secured by the Mortgage, if the Borrower is otherwise in default hereunder or if, after giving effect to any such Distribution, the Borrower's current and accrued assets would be less than its current and accrued liabilities.

Section 6.9. Limitations on Loans, Investments and Other Obligations.

The Borrower shall not make any loan or advance to, or make any investment in, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of, or guaranty, assume or otherwise become obligated or liable with respect to the obligations of, any other person, firm or corporation, except as permitted by the Act and RUS Regulations.

Section 6.10. Depreciation Rates.

The Borrower shall not file with or submit for approval of regulatory bodies any proposed depreciation rates which are inconsistent with RUS Regulations.

Section 6.11. Historic Preservation.

The Borrower shall not, without approval in writing by RUS, use any Advance to construct any facilities which shall involve any district, site, building, structure or object which is included in, or eligible for inclusion in, the National Register of Historic Places maintained by the Secretary of the Interior pursuant to the Historic Sites Act of 1935 and the National Historic Preservation Act of 1966.

Section 6.12. Rate Reductions.

Without the prior written approval of RUS, the Borrower shall not decrease its rates if it has failed to achieve all of the Coverage Ratios for the calendar year prior to such reduction.

Section 6.13. Limitations on Additional Indebtedness.

Except as expressly permitted by Article II of the Mortgage and subject to the further limitations expressed in the next section, the Borrower shall not incur, assume, guarantee or otherwise become liable in respect of any debt for borrowed money and Restricted Rentals (including Subordinated Indebtedness) other than the following: ("Permitted Debt")

- (a) Additional Notes issued in compliance with Article II of the Mortgage;
- (b) Purchase money indebtedness in non-Utility System property, in an amount not exceeding 10% of Net Utility Plant;
- (c) Restricted Rentals in an amount not to exceed 5% of Equity during any 12 consecutive calendar month period;
- (d) Unsecured lease obligations incurred in the ordinary course of business except Restricted Rentals;
- (e) Unsecured indebtedness for borrowed money, except when the aggregate amount of such indebtedness exceeds 15% of Net Utility Plant and after giving effect to such unsecured indebtedness the Borrower's Equity is less than 30% of its Total Assets;
- (f) Debt represented by dividends declared but not paid; and
- (g) Subordinated Indebtedness approved by RUS.

PROVIDED, However, that the Borrower may incur Permitted Debt without the consent of RUS only so long as there exists no Event of Default hereunder and there has been no continuing occurrence which with the passage of time and giving of notice could become an Event of Default hereunder.

PROVIDED, FURTHER, by executing this Agreement any consent of RUS that the Borrower would otherwise be required to obtain under this section is hereby deemed to be given or waived by RUS by operation of law to the extent, but only to the extent, that to impose such a requirement of RUS consent would clearly violate federal laws or RUS Regulations.

Section 6.14. Limitations on Issuing Additional Indebtedness Secured Under the Mortgage.

- (a) The Borrower shall not issue any Additional Notes under the Mortgage to finance Eligible Property Additions without the prior written consent of RUS unless the following additional requirements are met in addition to the requirements set forth in the Mortgage for issuing Additional Notes:
 - (1) The weighted average life of the loan evidenced by such Notes does not exceed the weighted average of the expected remaining useful lives of the assets being financed;
 - (2) The principal of the loan evidenced by such Notes is amortized at a rate that shall

yield a weighted average life that is not greater than the weighted average life that would result from level payments of principal and interest; and

- (3) The principal of the loan being evidenced by such Notes has a maturity of not less than 5 years.
- (b) The Borrower shall not issue any Additional Notes under the Mortgage to refund or refinance Notes without the prior written consent of RUS unless, in addition to the requirements set forth in the Mortgage for issuing Refunding or Refinancing Notes, the weighted average life of any such Refunding or Refinancing Notes is not greater than the weighted average remaining life of the Notes being refinanced.
- (c) Any request for consent from RUS under this section, shall be accompanied by a certificate of the Borrower's manager substantially in the form attached to this Agreement as Exhibit C-1 in the case of Notes being issued under Section 2.01 of the Mortgage and C-2 in the case of Notes being issued under Section 2.02 of the Mortgage.

Section 6.15. Impairment of Contracts Pledged to RUS.

The Borrower shall not materially breach any obligation to be paid or performed by the Borrower on any contract, or take any action which is likely to materially impair the value of any contract, which has been pledged as security to RUS by the Borrower or any other entity.

Section 6.16. Notice of Organizational Changes.

The Borrower covenants and agrees with RUS that the Borrower will not, directly or indirectly, without giving written notice to RUS thirty (30) days prior to the effective date:

- (a) Change the name of the Borrower
- (b) Change the mailing address of the Borrower, and
- (c) Change its organizational identification number if it has one.

Section 6.17. Consent for Organizational Changes.

The Borrower covenants and agrees with RUS that the Borrower will not, directly or indirectly, without the prior written consent of RUS change its type of organization, jurisdiction of organization or other legal structure.

Section 6.18. Additional Negative Covenants.

The Borrower also agrees to comply with any additional negative covenant(s) identified in Schedule 1 hereto.

ARTICLE VII
EVENTS OF DEFAULT

Section 7.1. Events of Default.

The following shall be Events of Default under this Agreement:

- (a) Representations and Warranties. Any representation or warranty made by the Borrower in Article II hereof or any certificate furnished to RUS hereunder or under the Mortgage shall prove to have been incorrect in any material respect at the time made and shall at the time in question be untrue or incorrect in any material respect and remain uncured;
- (b) Payment. Default shall be made in the payment of or on account of interest on or principal of the Note or any other Government Note when and as the same shall be due and payable, whether by acceleration or otherwise, which shall remain unsatisfied for five (5) Business Days;
- (c) Borrowing Under the Mortgage in Violation of the Loan Contract. Default by the Borrower in the observance or performance of any covenant or agreement contained in Section 6.14 of this Agreement;
- (d) Other Covenants. Default by the Borrower in the observance or performance of any other covenant or agreement contained in any of the Loan Documents, which shall remain unremedied for 30 calendar days after written notice thereof shall have been given to the Borrower by RUS;
- (e) Corporate Existence. The Borrower shall forfeit or otherwise be deprived of its corporate charter, franchises, permits, easements, consents or licenses required to carry on any material portion of its business;
- (f) Other Obligations. Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation;
- (g) Bankruptcy. A court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of ninety (90) consecutive days or the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian or trustee, of a substantial part of its property, or make any general assignment for the benefit of creditors; and
- (h) Dissolution or Liquidation. Other than as provided in the immediately preceding subsection, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as shall impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within 30 days. The term "dissolution or liquidation of the Borrower", as used in this subsection, shall not be

construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions.

ARTICLE VIII

REMEDIES

Section 8.1. Generally.

Upon the occurrence of an Event of Default, then RUS may pursue all rights and remedies available to RUS that are contemplated by this Agreement or the Mortgage in the manner, upon the conditions, and with the effect provided in this Agreement or the Mortgage, including, but not limited to, a suit for specific performance, injunctive relief or damages. Nothing herein shall limit the right of RUS to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default listed in Article VII hereof. Each right, power and remedy of RUS shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

Section 8.2. Suspension of Advances.

In addition to the rights, powers and remedies referred to in the immediately preceding section, RUS may, in its absolute discretion, suspend making or, in the case of any Loan guaranteed by RUS, approving Advances hereunder if (i) any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing; (ii) there has occurred a change in the business or condition, financial or otherwise, of the Borrower which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations under the Loan Documents, or (iii) RUS is authorized to do so under RUS Regulations.

ARTICLE IX

MISCELLANEOUS

Section 9.1. Notices.

All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as provided for herein. The Address for Notices of the respective parties are set forth in Schedule 1 hereto.

Section 9.2. Expenses.

To the extent allowed by law, the Borrower shall pay all costs and expenses of RUS, including reasonable fees of counsel, incurred in connection with the enforcement of the Loan Documents or with the preparation for such enforcement if RUS has reasonable grounds to believe that such

enforcement may be necessary.

Section 9.3. Late Payments.

If payment of any amount due hereunder is not received at the United States Treasury in Washington, DC, or such other location as RUS may designate to the Borrower within five (5) Business Days after the due date thereof or such other time period as RUS may prescribe from time to time in its policies of general application in connection with any late payment charge (such unpaid amount being herein called the "delinquent amount", and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period"), the Borrower shall pay to RUS, in addition to all other amounts due under the terms of the Note, the Mortgage and this Agreement, any late-payment charge as may be fixed by RUS Regulations from time to time on the delinquent amount for the late-payment period.

Section 9.4. Filing Fees.

To the extent permitted by law, the Borrower agrees to pay all expenses of RUS (including the fees and expenses of its counsel) in connection with the filing or recordation of all financing statements and instruments as may be required by RUS in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify RUS from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by RUS in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due hereunder or due on the Note.

Section 9.5. No Waiver.

No failure on the part of RUS to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise by RUS of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

Section 9.6. Governing Law.

EXCEPT TO THE EXTENT GOVERNED BY APPLICABLE FEDERAL LAW, THE LOAN DOCUMENTS SHALL BE DEEMED TO BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE IN WHICH THE BORROWER IS INCORPORATED.

Section 9.7. Holiday Payments.

If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

Section 9.8. Rescission.

The Borrower may elect not to borrow the RUS Commitment in which event RUS shall release the Borrower from its obligations hereunder, provided the Borrower complies with such terms and conditions as RUS may impose for such release and provided also that if the Borrower has any remaining obligations to RUS for loans made or guaranteed by RUS under any Prior Loan

Contracts, RUS may, under Section 9.15 of this Loan Contract, withhold such release until all such obligations have been satisfied and discharged.

Section 9.9. Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the Borrower and RUS and their respective successors and assigns, except that the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of RUS.

Section 9.10. Complete Agreement; Waivers and Amendments.

Subject to RUS Regulations, this Agreement and the other Loan Documents are intended by the parties to be a complete and final expression of their agreement. However, RUS reserves the right to waive its rights to compliance with any provision of this Agreement and the other Loan Documents. No amendment, modification, or waiver of any provision hereof or thereof, and no consent to any departure of the Borrower herefrom or therefrom, shall be effective unless approved in writing by RUS in the form of either a RUS Regulation or other writing signed by or on behalf of RUS, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 9.11. Headings.

The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

Section 9.12. Severability.

If any term, provision or condition, or any part thereof, of this Agreement or the Mortgage shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, the Note, and the Mortgage shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

Section 9.13. Right of Setoff.

Upon the occurrence and during the continuance of any Event of Default, RUS is hereby authorized at any time and from time to time, without prior notice to the Borrower, to exercise rights of setoff or recoupment and apply any and all amounts held or hereafter held, by RUS or owed to the Borrower or for the credit or account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing hereunder or under the Note. RUS agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of RUS under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which RUS may have. Borrower waives all rights of setoff, deduction, recoupment or counterclaim.

Section 9.14. Schedules and Exhibits.

Each Schedule and Exhibit attached hereto and referred to herein is each an integral part of this Agreement.

Section 9.15. Prior Loan Contracts.

With respect to all Prior Loan Contracts, the Borrower shall, commencing on the delivery date hereof, prospectively meet the affirmative and negative covenants as set forth in this Agreement rather than those set forth in the Prior Loan Contracts. In addition, any remaining obligation of RUS to make or approve additional Advances on promissory notes of the Borrower that have been previously delivered to RUS under Prior Loan Contracts shall, after the date hereof, be subject to the conditions set forth in this Agreement. In the event of any conflict between any provision set forth in a Prior Loan Contract and any provision in this Agreement, the requirements as set forth in this Agreement shall apply. Nothing in this section shall, however, eliminate or modify (i) any special condition, special affirmative covenant or special negative covenant, if any, set forth in any Prior Loan Contract or (ii) alter the repayment terms of any promissory notes which the Borrower has delivered under any Prior Loan Contract, except, in either case, as RUS may have specifically agreed to in writing.

Section 9.16. Authority of Representatives of RUS.

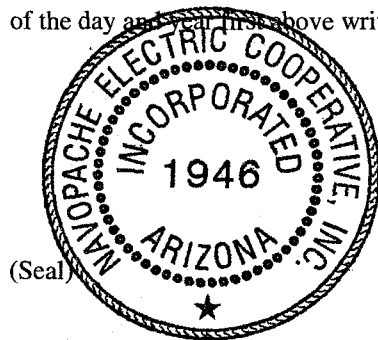
In the case of any consent, approval or waiver from RUS that is required under this Agreement or any other Loan Document, such consent, approval or waiver must be in writing and signed by an authorized RUS representative to be effective. As used in this section, "authorized RUS representative" means the Administrator of RUS, and also means a person to whom the Administrator has officially delegated specific or general authority to take the action in question.

Section 9.17. Term.

This Agreement shall remain in effect until one of the following two events has occurred:

- (a) The Borrower and RUS replace this Agreement with another written agreement; or
- (b) All of the Borrower's obligations under the Prior Loan Contracts and this Agreement have been discharged and paid.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.



NAVOPACHE ELECTRIC COOPERATIVE, INC.

by



, President

Attest:

Secretary



UNITED STATES OF AMERICA

by

Cent M. Ardena

Acting Administrator
of the
Rural Utilities Service

RUS LOAN CONTRACT SCHEDULE 1

1. The purpose of this loan is to finance construction of distribution facilities, transmission facilities and such other purposes that RUS may agree to in writing in order to carry out the purposes of the Act.
2. The Mortgage shall mean the Restated Mortgage and Security Agreement, dated as of August 1, 2003, among the Borrower, RUS and National Rural Utilities Cooperative Finance Corporation, as it may have been or shall be supplemented, amended, consolidated, or restated from time to time.
3. The governmental authority referred to in Section 2.1(c) is the Arizona Corporation Commission.
4. The date of the Borrower's financial information referred to in Section 2.1(h) is May 31, 2005.
5. The principal place of business and mailing address of the Borrower referred to in Section 2.1(i) is 1878 West White Mountain Boulevard, Lakeside, Arizona 85929.
6. All of the property of the Borrower is located in the Counties of Apache, Gila, Greenlee and Navajo in the State of Arizona, and the County of Catron in the State of New Mexico.
7. There are no subsidiaries as referred to in Section 2.1(k).
8. The Contemporaneous Loan referred to in Section 5.3 is described as follows:
None.
9. The RUS Commitment referred to in the definitions means a loan in the principal amount of \$33,231,000.00, which is being made by RUS to Navopache Electric Cooperative, Inc. at the Treasury Rate of interest, pursuant to the Rural Electrification Act and RUS Regulations and 7 CFR § 1710.51(a)(1).
10. Amortization of Advance shall be based upon the level debt service method.
11. The SPECIAL conditions referred to in Section 4.2 are as follows:
None.
12. The additional AFFIRMATIVE covenants referred to in Section 5.22 are as follows:
None.
13. The additional NEGATIVE covenants referred to in Section 6.16 are as follows:
None.

14. The addresses of the parties referred to in Section 9.1. are as follows:

RUS

Rural Utilities Service
U.S. Department of Agriculture
Washington, DC 20250-1500
Attention: Administrator
Fax: (202) 205-2920

BORROWER

Navopache Electric Cooperative, Inc.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929
Fax: (928) 368-6697

15. The additional types of contract referred to in Section 6.5(f) are described as follows:

None.

16. The organizational identification number of the Borrower referred to in Section 2.1(m) is 0039819-9.

EXHIBIT A

FORM OF PROMISSORY NOTE

This Exhibit A of this Loan Contract consists of the following sample document:

- 1 RUS Treasury Rate Promissory Note

RUS Electric Treasury Rate Note
2 Year Principal Deferral

PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

MORTGAGE NOTE

made by

NAVOPACHE ELECTRIC COOPERATIVE, INC.

to

UNITED STATES OF AMERICA

MORTGAGE NOTE

Lakeside, Arizona
October 3, 2005

1. Amount. NAVOPACHE ELECTRIC COOPERATIVE, INC. (hereinafter called the "Borrower"), a corporation organized and existing under the laws of the State of Arizona, for value received, promises to pay to the order of the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the Administrator of the Rural Utilities Service (hereinafter called the "Administrator"), at the United States Treasury, Washington, D.C., at the times and in the manner hereinafter provided, such sums as may be advanced from time to time, not to exceed Thirty-three Million Two Hundred Thirty-one Thousand Dollars and No Cents (\$33,231,000.00), with interest payable from the date of each advance ("Advance") on the unpaid principal balance remaining unpaid from time to time as hereinafter provided.
2. Interest Rate. The Borrower agrees to pay interest on the unpaid principal balance hereunder for each Advance on the dates and at a rate or rates per annum (the "Treasury Interest Rate") determined by the Government for that Advance in accordance with 7 CFR § 1710.51(a)(1), and as may be more particularly described in that certain Loan Contract as hereinafter defined.
3. Fund Advance Period. Funds will be advanced under this Note pursuant to a loan contract dated as of October 3, 2005, between the Borrower and the Government as it may be amended from time to time (the "Loan Contract"). The fund advance period for this Note begins on the date hereof and terminates five (5) years from the date of this note (the "Termination Date"). All funds not advanced prior to the Termination Date shall be automatically rescinded unless the Administrator extends the fund advance period in accordance with 7 CFR § 1714.56.
4. Payment on Advances made within two (2) years. Interest on principal advanced during the first two (2) years from the date hereof pursuant to the Loan Contract and remaining unpaid shall be payable monthly on the last day of each month (the "Monthly Payment Date") beginning on the Monthly Payment Date following the month of each Advance of principal for a period ending on a date two (2) years after the date hereof. The first interest payment on an Advance made during the first two years from the date hereof shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Thereafter, to and including a date thirty-five (35) years after the date hereof (the "Final Maturity Date"), the Borrower shall pay all accrued interest on each Advance on every Monthly Payment Date and shall repay the principal on each such Advance according to the amortization method specified in Paragraph 6 of this Note.
5. Payment on Advances made after two (2) years. For all Advances made two (2) years or more after the date hereof, the Borrower shall pay all accrued interest on the unpaid principal balance of the principal amount advanced pursuant to the Loan Contract two (2) or more years after the date hereof and remaining unpaid and shall repay the principal on each such Advance beginning on the Monthly Payment Date following the month of such Advance in accordance with the amortization method specified in Paragraph 6 of this Note. The first payment on an Advance made two (2) years or more after the date of this Note shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Payments under this Paragraph 5 shall be in addition to the payments on the Advances made pursuant to Paragraph 4. Regardless of the amortization method selected or anything in this Note to the contrary, all amounts outstanding under this Note remaining unpaid as of the Final Maturity Date shall be due and payable on the Final Maturity Date.
6. Amortization Method. The Borrower has elected the "level debt service" amortization method for all of the

Advances under this Note --- during each Interest Rate Term (as defined in 7 CFR § 1710.2) for such Advance, the amount of each monthly payment of principal and interest shall (i) substantially equal the amount of every other monthly payment on such Advance during such Interest Rate Term, and (ii) be in an amount that will pay all principal and interest of such Advance no later than the Final Maturity Date.

7. No Call Provision. The Borrower has no option allowing it to prepay all, or any portion of, the outstanding balance on any Advance thereof except as provided in paragraph 10 of this Note.

8. No Interest Rate Cap. The interest rate on this Note is **NOT** subject to the seven percent (7%) maximum interest rate limitation presently imposed by said Section 305 and its related implementing regulations.

9. Application of Payments. Each payment made on this Note shall be applied first to the payment of interest on principal and then on account of principal. Any principal hereof advanced pursuant to the Loan Contract remaining unpaid, and interest thereon, shall become due and payable on the Final Maturity Date.

10. Prepayment. All, or a portion of the outstanding balance on any Advance may be prepaid on any Rollover Maturity Date (as defined in 7 CFR § 1710.2) pursuant to 7 CFR § 1714.6(a)(4). Such balance may also be prepaid pursuant to Section 306B of the Rural Electrification Act of 1936.

11. Security. This Note has been executed and delivered pursuant to and is secured by a certain mortgage and security agreement, dated as of August 1, 2003, made by and among the Borrower, the Government and National Rural Utilities Cooperative Finance Corporation, as the same may have been amended or supplemented by any supplemental mortgage and security agreement or supplemental mortgages and security agreements (said mortgage and security agreement and any such supplemental mortgage(s) and security agreement(s) being hereinafter collectively called the "Mortgage"), and is one of several notes (the "Notes") permitted to be executed and delivered by the Borrower pursuant to the Mortgage. The Mortgage provides that all Notes shall be equally and ratably secured thereby and reference is hereby made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security and the rights of the holders of Notes with respect thereto.

12. Default. In case of default by the Borrower, as provided in the Mortgage, all principal advanced pursuant to the Loan Contract and remaining unpaid on this Note and any other Notes at the time outstanding, and all interest thereon, may be declared or may become due and payable in the manner and with the effect provided in the Mortgage.

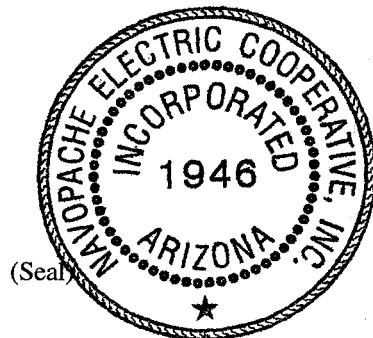
13. Noteholder. This Note evidences indebtedness created by a loan made by the Government under the NOFA and the Rural Electrification Act of 1936, as amended. If the Government shall at any time assign this Note and insure the payment hereof, the Borrower shall continue to make payments hereunder to the Government as collection agent for the insured holder, and, for purposes of the Mortgage, the Government, and not such insured holder, shall be considered to be, and shall have the rights of, the noteholder.

14. Additional Notes. If the Government, at any time prior to the advance of the entire principal amount hereof on account of this Note, shall make a written endorsement hereon stating the amount advanced on account of the principal hereof, and shall notify the Borrower, in writing, of such endorsement, then the principal amount of this Note shall be deemed to be and shall become reduced to the amount specified in such endorsement, and the Borrower shall then execute and deliver to the Government one or more additional notes, in an amount or amounts

designated by the Government which in the aggregate shall be equal to the then unadvanced portion of the original principal amount of this Note, such additional notes to be dated the date of execution, to be in substantially the same form, and to bear the same interest rate, as this Note. The Borrower, upon the request therefor in writing by the Government, shall execute and deliver to the Government two or more notes, in substitution for this Note, in substantially the same form and bearing the same interest rate and date (except that any such substitute note which will evidence only an unadvanced portion of this Note may, at the discretion of the Government, be dated the date of execution), in an aggregate principal amount which shall be equal to the principal amount of this Note, but in such individual principal amounts as the Government shall request; provided that (i) all payments which shall have been made on account of the principal of and interest on this Note shall be credited on account of such substitute notes and (ii) the Government shall return this Note to the Borrower upon receipt and acceptance of such substitute notes.

15. References to Regulations or Notices. References in this Note to specific Government regulations or notices will apply to corresponding provisions in future versions of such regulations and notices.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.



NAVOPACHE ELECTRIC COOPERATIVE, INC.

SAMPLE - NOT FOR EXECUTION

by *Bradley L. Poku*, President

Attest:

Secretary *Donna M. Menzies*

EXHIBIT B

EQUAL OPPORTUNITY CONTRACT PROVISIONS

During the performance of this contract, the contractor agrees as follows:

- (a) The contractor shall not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor shall take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided setting forth the provisions of this nondiscrimination clause.
- (b) The contractor shall, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants shall receive consideration for employment without regard to race, color, religion, sex or national origin.
- (c) The contractor shall send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided advising the said labor union or workers' representative of the contractor's commitments under this section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (d) The contractor shall comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
- (e) The contractor shall furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and shall permit access to his books, records and accounts by the administering agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- (f) In the event of the contractor's noncompliance with the non-discrimination clauses of this contract or with any of the said rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.
- (g) The contractor shall include the provisions of paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246, dated September 24, 1965, so that such provisions shall be binding upon each subcontractor or vendor. The contractor shall take such action with respect to any subcontract or purchase order as the administering agency may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, that in the event a contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States.

EXHIBIT C-1

MANAGER'S CERTIFICATE REQUIRED UNDER LOAN
CONTRACT SECTION 6.14 FOR ADDITIONAL NOTES

On behalf of _____
Name of Borrower

I hereby certify that the Additional Note or Notes to be issued under Section 2.01 of the Mortgage on or
about _____ meet all of the requirements of
_____ Date Note or Notes are to be Signed
Section 6.14 of the Loan Contract, namely:

- (a) The weighted average life of the loan evidenced by such Notes (_____ years) does not exceed the weighted average of the expected remaining useful lives of the assets being financed (_____ years) as evidenced by the attached calculation of said weighted average lives.
- (b) The principal of the loan evidenced by such Notes shall either be [check one and provide evidence in the second case:
 - (1) repaid based on level payments of principal and interest throughout the life of the loan, or
 - (2) amortized at a rate that shall yield a weighted average life that is not greater than the weighted average life that would result from level payments of principal and interest throughout the life of the loan as evidenced by the attached analysis of said weighted average lives.
- (c) The principal of the loan evidenced by such Notes has a maturity of not less than 5 years.

SAMPLE - NOT FOR EXECUTION

Signed

Date

Name

Title

Name and Address of Borrower:

EXHIBIT C-2

**MANAGER'S CERTIFICATE REQUIRED UNDER LOAN CONTRACT
SECTION 6.14 FOR REFINANCING NOTES**

On behalf of _____

Name of Borrower

I hereby certify that the Additional Note or Notes to be issued under Section 2.02 of the Mortgage on or about _____ meet the requirement of Section 6.14

Date Note or Notes are to be Signed

of the Loan Contract that the weighted average life of such Notes is not greater than the weighted average remaining life of the Notes being refinanced, as evidenced by the attached calculation of said weighted average lives.

SAMPLE - NOT FOR EXECUTION

Signed

Date

Name

Title

Name and Address of Borrower:

RUS Electric Treasury Rate Note
2 Year Principal Deferral

PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

MORTGAGE NOTE

made by

NAVOPACHE ELECTRIC COOPERATIVE, INC.

to

UNITED STATES OF AMERICA

MORTGAGE NOTE

Lakeside, Arizona
October 3, 2005

1. Amount. NAVOPACHE ELECTRIC COOPERATIVE, INC. (hereinafter called the "Borrower"), a corporation organized and existing under the laws of the State of Arizona, for value received, promises to pay to the order of the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the Administrator of the Rural Utilities Service (hereinafter called the "Administrator"), at the United States Treasury, Washington, D.C., at the times and in the manner hereinafter provided, such sums as may be advanced from time to time, not to exceed Thirty-three Million Two Hundred Thirty-one Thousand Dollars and No Cents (\$33,231,000.00), with interest payable from the date of each advance ("Advance") on the unpaid principal balance remaining unpaid from time to time as hereinafter provided.
2. Interest Rate. The Borrower agrees to pay interest on the unpaid principal balance hereunder for each Advance on the dates and at a rate or rates per annum (the "Treasury Interest Rate") determined by the Government for that Advance in accordance with 7 CFR § 1710.51(a)(1), and as may be more particularly described in that certain Loan Contract as hereinafter defined.
3. Fund Advance Period. Funds will be advanced under this Note pursuant to a loan contract dated as of October 3, 2005, between the Borrower and the Government as it may be amended from time to time (the "Loan Contract"). The fund advance period for this Note begins on the date hereof and terminates five (5) years from the date of this note (the "Termination Date"). All funds not advanced prior to the Termination Date shall be automatically rescinded unless the Administrator extends the fund advance period in accordance with 7 CFR § 1714.56.
4. Payment on Advances made within two (2) years. Interest on principal advanced during the first two (2) years from the date hereof pursuant to the Loan Contract and remaining unpaid shall be payable monthly on the last day of each month (the "Monthly Payment Date") beginning on the Monthly Payment Date following the month of each Advance of principal for a period ending on a date two (2) years after the date hereof. The first interest payment on an Advance made during the first two years from the date hereof shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Thereafter, to and including a date thirty-five (35) years after the date hereof (the "Final Maturity Date"), the Borrower shall pay all accrued interest on each Advance on every Monthly Payment Date and shall repay the principal on each such Advance according to the amortization method specified in Paragraph 6 of this Note.
5. Payment on Advances made after two (2) years. For all Advances made two (2) years or more after the date hereof, the Borrower shall pay all accrued interest on the unpaid principal balance of the principal amount advanced pursuant to the Loan Contract two (2) or more years after the date hereof and remaining unpaid and shall repay the principal on each such Advance beginning on the Monthly Payment Date following the month of such Advance in accordance with the amortization method specified in Paragraph 6 of this Note. The first payment on an Advance made two (2) years or more after the date of this Note shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Payments under this Paragraph 5 shall be in addition to the payments on the Advances made pursuant to Paragraph 4. Regardless of the amortization method selected or anything in this Note to the contrary, all amounts outstanding under this Note remaining unpaid as of the Final Maturity Date shall be due and payable on the Final Maturity Date.
6. Amortization Method. The Borrower has elected the "level debt service" amortization method for all of the

Advances under this Note --- during each Interest Rate Term (as defined in 7 CFR § 1710.2) for such Advance, the amount of each monthly payment of principal and interest shall (i) substantially equal the amount of every other monthly payment on such Advance during such Interest Rate Term, and (ii) be in an amount that will pay all principal and interest of such Advance no later than the Final Maturity Date.

7. No Call Provision. The Borrower has no option allowing it to prepay all, or any portion of, the outstanding balance on any Advance thereof except as provided in paragraph 10 of this Note.

8. No Interest Rate Cap. The interest rate on this Note is **NOT** subject to the seven percent (7%) maximum interest rate limitation presently imposed by said Section 305 and its related implementing regulations.

9. Application of Payments. Each payment made on this Note shall be applied first to the payment of interest on principal and then on account of principal. Any principal hereof advanced pursuant to the Loan Contract remaining unpaid, and interest thereon, shall become due and payable on the Final Maturity Date.

10. Prepayment. All, or a portion of the outstanding balance on any Advance may be prepaid on any Rollover Maturity Date (as defined in 7 CFR § 1710.2) pursuant to 7 CFR § 1714.6(a)(4). Such balance may also be prepaid pursuant to Section 306B of the Rural Electrification Act of 1936.

11. Security. This Note has been executed and delivered pursuant to and is secured by a certain mortgage and security agreement, dated as of August 1, 2003, made by and among the Borrower, the Government and National Rural Utilities Cooperative Finance Corporation, as the same may have been amended or supplemented by any supplemental mortgage and security agreement or supplemental mortgages and security agreements (said mortgage and security agreement and any such supplemental mortgage(s) and security agreement(s) being hereinafter collectively called the "Mortgage"), and is one of several notes (the "Notes") permitted to be executed and delivered by the Borrower pursuant to the Mortgage. The Mortgage provides that all Notes shall be equally and ratably secured thereby and reference is hereby made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security and the rights of the holders of Notes with respect thereto.

12. Default. In case of default by the Borrower, as provided in the Mortgage, all principal advanced pursuant to the Loan Contract and remaining unpaid on this Note and any other Notes at the time outstanding, and all interest thereon, may be declared or may become due and payable in the manner and with the effect provided in the Mortgage.

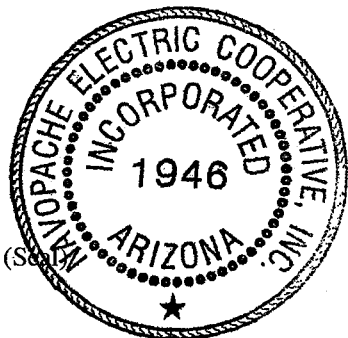
13. Noteholder. This Note evidences indebtedness created by a loan made by the Government under the NOFA and the Rural Electrification Act of 1936, as amended. If the Government shall at any time assign this Note and insure the payment hereof, the Borrower shall continue to make payments hereunder to the Government as collection agent for the insured holder, and, for purposes of the Mortgage, the Government, and not such insured holder, shall be considered to be, and shall have the rights of, the noteholder.

14. Additional Notes. If the Government, at any time prior to the advance of the entire principal amount hereof on account of this Note, shall make a written endorsement hereon stating the amount advanced on account of the principal hereof, and shall notify the Borrower, in writing, of such endorsement, then the principal amount of this Note shall be deemed to be and shall become reduced to the amount specified in such endorsement, and the Borrower shall then execute and deliver to the Government one or more additional notes, in an amount or amounts

designated by the Government which in the aggregate shall be equal to the then unadvanced portion of the original principal amount of this Note, such additional notes to be dated the date of execution, to be in substantially the same form, and to bear the same interest rate, as this Note. The Borrower, upon the request therefor in writing by the Government, shall execute and deliver to the Government two or more notes, in substitution for this Note, in substantially the same form and bearing the same interest rate and date (except that any such substitute note which will evidence only an unadvanced portion of this Note may, at the discretion of the Government, be dated the date of execution), in an aggregate principal amount which shall be equal to the principal amount of this Note, but in such individual principal amounts as the Government shall request; provided that (i) all payments which shall have been made on account of the principal of and interest on this Note shall be credited on account of such substitute notes and (ii) the Government shall return this Note to the Borrower upon receipt and acceptance of such substitute notes.

15. References to Regulations or Notices. References in this Note to specific Government regulations or notices will apply to corresponding provisions in future versions of such regulations and notices.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.



NAVOPACHE ELECTRIC COOPERATIVE, INC.

by *Bradley L. Baker*, President

Attest:

Secretary *Ann Mungar*



2006-00785

Page 1 of 13

Requested By: NAVOPACHE ELECTRIC COOPERATIVE,
BERTA MANUZ RECORDER, GREENLEE COUNTY, AZ
08-28-2006 02:36 PM Recording Fee \$22.00

RUS PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

SUPPLEMENTAL MORTGAGE

made by and among

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929,

Mortgagor, and

UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of October 3, 2005

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY,
FIXTURES, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE
OBLIGATIONS.
MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0039819-9.

No. 8

Generated: September 22, 2005

restmort.v1h 12/3/98 v5.74 w/ UCC-1 revisions

RUS PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

SUPPLEMENTAL MORTGAGE

made by and among

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929,

Mortgagor, and

UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of October 3, 2005

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY,
FIXTURES, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE
OBLIGATIONS.
MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0039819-9.

Navopache Electric Cooperative, Inc
PO Box 308
1878 W white Mtn Blvd
Lakeside, Arizona 85929

2006-006357

Page 1 of 13

OFFICIAL RECORDS OF APACHE COUNTY

LENDRA Y. JOHNSON, RECORDER

05-25-2006 03:15 PM Recording Fee \$22.00

RUS PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

SUPPLEMENTAL MORTGAGE

made by and among

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929,

Mortgagor, and

UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of October 3, 2005

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THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY,
FIXTURES, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE
OBLIGATIONS.
MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0039819-9.

No. 2

Generated: September 22, 2005

restmort.v1h 12/3/98 v5.74 w/ UCC-1 revisions

RUS PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

SUPPLEMENTAL MORTGAGE

made by and among

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929,

Mortgagor, and

UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of October 3, 2005

CATRON COUNTY-NM
CYNTHIA WASSERBURGER
020054439
Book 59 Page 935
1 of 13
06/07/2006 04:05:41 PM
BY CLERKOFB *sa*

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY,
FIXTURES, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE
OBLIGATIONS.
MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0039819-9.

No. 1

Generated: September 22, 2005

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RUS PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

SUPPLEMENTAL MORTGAGE

made by and among

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929,

Mortgagor, and

UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of October 3, 2005

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY,
FIXTURES, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE
OBLIGATIONS.
MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0039819-9.

No. 4

Generated: September 22, 2005

restmort.v1h 12/3/98 v5.74 w/ UCC-1 revisions

SUPPLEMENTAL MORTGAGE, dated as of October 3, 2005 (hereinafter sometimes called this "Supplemental Mortgage"), is made by and among NAVOPACHE ELECTRIC COOPERATIVE, INC. (hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of Arizona, and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government") and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (hereinafter called "CFC"), a corporation existing under the laws of the District of Columbia, and is intended to confer rights and benefits on both the Government and CFC, in accordance with this Supplemental Mortgage and the Original Mortgage (hereinafter defined) (the Government and CFC being hereinafter sometimes collectively referred to as the "Mortgagees").

RECITALS

WHEREAS, the Mortgagor, the Government and CFC are parties to that certain Restated Mortgage and Security Agreement (the "Original Mortgage" as identified in Schedule "A" of this Supplemental Mortgage) originally entered into among the Mortgagor, the Government acting by and through the Administrator of the Rural Utilities Service (hereinafter called "RUS"), and CFC; and

WHEREAS, the Original Mortgage as the same may have been previously supplemented, amended or restated is hereinafter referred to as the "Existing Mortgage"; and

WHEREAS, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same, and to enter into this Supplemental Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity, hereunder and under the Existing Mortgage (this Supplemental Mortgage and the Existing Mortgage, hereinafter sometimes collectively referred to as the "Mortgage"); and

WHEREAS, all of the Mortgagor's Outstanding Notes listed in Schedule "A" hereto are secured pari passu by the Existing Mortgage for the benefit of all of the Mortgagees under the Existing Mortgage; and

WHEREAS, the Existing Mortgage provides the terms by which additional pari passu obligations may be issued thereunder and further provides that the Existing Mortgage may be supplemented from time to time to evidence that such obligations are entitled to the security of the Existing Mortgage and to add additional Mortgagees; and

WHEREAS, by their execution and delivery of this Supplemental Mortgage the parties hereto do hereby secure the Additional Notes listed in Schedule "A" pari passu with the Outstanding Notes under the Existing Mortgage; and

WHEREAS, all acts necessary to make this Supplemental Mortgage a valid and binding legal instrument for the security of such notes and obligations under the terms of the Mortgage, have been in all respects duly authorized;

Now, Therefore, This Supplemental Mortgage Witnesseth: That to secure the payment of the principal of (and premium, if any) and interest on all Notes and all Notes issued hereunder according to their tenor and effect, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge, and grant a continuing security interest in for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein or any other kind or nature, except any Excepted Property, set forth on

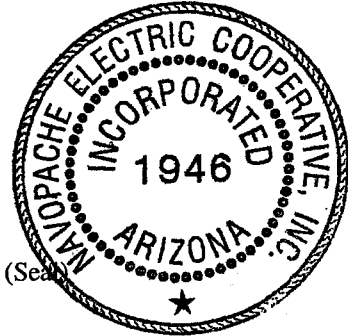
Schedule "C" hereof owned or hereafter acquired by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following:

- A. all of those fee and leasehold interests in real property set forth in Schedule "B" hereto, subject in each case to those matters set forth in such Schedule; and
- B. all of those fee and leasehold interests in real property set forth in Schedule "B" of the Existing Mortgage or in any restatement, amendment or supplement thereto, subject in each case to those matters set forth in such Schedule; and
- C. all of the kinds, types or items of property, now owned or hereafter acquired, described as Mortgaged Property in the Existing Mortgage or in any restatement, amendment or supplement thereto as Mortgaged Property.

It is further Agreed and Covenanted That the Original Mortgage, as previously restated, amended or supplemented, and this Supplement shall constitute one agreement and the parties hereto shall be bound by all of the terms thereof and, without limiting the foregoing.

- 1. All capitalized terms not defined herein shall have the meaning given in Article I of the Existing Mortgage.
- 2. This Supplemental Mortgage is one of the Supplemental Mortgages contemplated by Article II of the Original Mortgage.
- 3. The Maximum Debt Limit for the Mortgage shall be as set forth in Schedule "A" hereto.

IN WITNESS WHEREOF, NAVOPACHE ELECTRIC COOPERATIVE, INC., as Mortgagor, has caused this Supplemental Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, UNITED STATES OF AMERICA, as Mortgagee and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagee, have each caused this Supplemental Mortgage to be signed in their respective names by duly authorized persons, all as of this day and year first above written.



NAVOPACHE ELECTRIC COOPERATIVE, INC.

by Bradley L. Baker, President

Attest:

Secretary Ann M. Jensen

Executed by the Mortgagor
in the presence of:

Stephen P. Verbruggen
Bill Arndel
Witnesses

UNITED STATES OF AMERICA

by Arthur M. Aden

Acting Administrator
of the
Rural Utilities Service

Executed by United States of America,
Mortgagee, in the presence of:

Angus W. O'Donoghue
Deborah W. O'Donoghue
Witnesses

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION

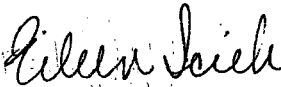
by 

Assistant Secretary-Treasurer

ROBERT D STEPHENS

(SEAL)

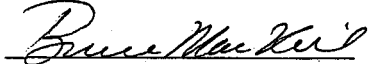
Attest:



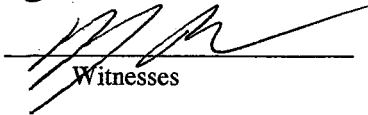
EILEEN ICIEK

Assistant Secretary-Treasurer

Executed by the above-named, Mortgagee, in the
presence of:



BRUCE MACNEIL


Witnesses

NIELS POULSEN

STATE OF ARIZONA

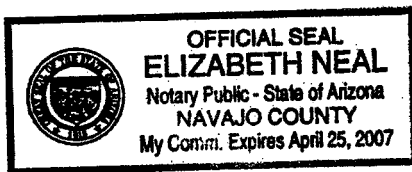
COUNTY OF

Navajo

)
) SS
)

On this 24th day of May, 20 06, before me
Elizabeth Neal, the undersigned officer, personally appeared Bradley L Baker
and Ann Menges, who acknowledged
themselves to be the President and Secretary, respectively, of Navopache Electric Cooperative, Inc., a corporation,
and that they, as such President and Secretary, being authorized so to do, executed the foregoing instrument, for the
purposes therein contained, by signing the name of the corporation by themselves as President and Secretary.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.



(Notarial Seal)

Elizabeth Neal
Notary Public

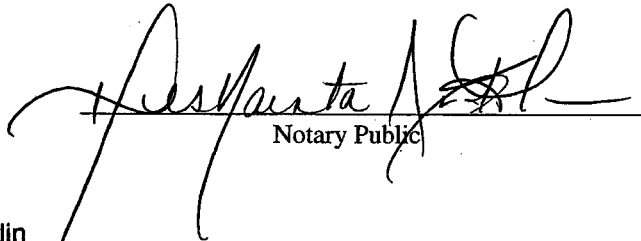
My commission expires:

DISTRICT OF COLUMBIA

) SS

On this 29th day of September, 2005, personally appeared before me
CURTIS M. ANDERSON **Acting**, who, being duly sworn, did say that he is the Administrator of
the Rural Utilities Service, an agency of the United States of America, and acknowledged to me that, acting under a
delegation of authority duly given and evidenced by law and presently in effect, he executed said instrument as the
act and deed of the United States of America for the uses and purposes therein mentioned.

IN TESTIMONY WHEREOF I have heretofore set my hand and official seal the day and year last above
written.


Notary Public

(Notarial Seal)

DeShaunta L. Franklin
Notary Public, District of Columbia
My Commission Expires 9-30-2010

My commission expires: _____

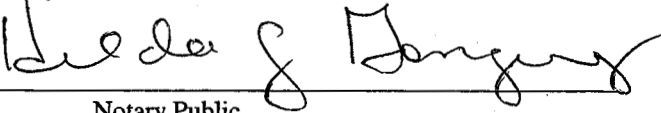
COMMONWEALTH OF VIRGINIA

) SS

COUNTY OF FAIRFAX

On this 5th day of October, 2005, before me appeared
ROBERT D STEPHENS, to me personally known, who, being by me
duly sworn, did say that he is the ASSISTANT SECRETARY-TREASURER of the National Rural Utilities
Cooperative Finance Corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said
corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of
directors and said ASSISTANT SECRETARY-TREASURER acknowledged said instrument to be the free act and
deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.


Notary Public

(Notarial Seal)

Hilda J. Gonzalez
NOTARY PUBLIC

Commonwealth of Virginia

My commission expires: My Commission Expires 12/31/2008

Supplemental Mortgage Schedule A - Part One

Maximum Debt Limit and Other Information

1. The Maximum Debt Limit is \$175,000,000.00.
2. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows:

<u>Instrument Title</u>	<u>Instrument Date</u>
Restated Mortgage and Security Agreement	August 1, 2003

3. The Outstanding Notes referred to in the fourth WHEREAS clause above that are Government Notes are more particularly described as follows:

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate</u> ¹
R	\$1,217,000.00	23 Aug 1967	27 Aug 2008	2.00
X6	\$3,561,000.00	26 Jan 1983	26 Jan 2018	5.00
Y6	\$6,058,000.00	5 Mar 1987	5 Mar 2022	5.00
Z6	\$3,532,000.00	3 Mar 1993	3 Mar 2028	5.00
AA42	\$8,329,663.00	1 Aug 1996	1 Aug 2031	5.00
AB8 ²	\$24,571,000.00	1 Nov 2002	31 Dec 2036	V
AC8 ³	\$3,145,000.00	1 Aug 2003	31 Dec 2034	V

4. The Additional Notes described in the sixth WHEREAS clause above are more particularly described as follows:

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate</u> ⁴
AD44	\$33,231,000.00	3 Oct 2005	3 Oct 2040	V

¹V=variable interest rate calculated by RUS pursuant to title 7 of the Code of Federal Regulations or by the Secretary of Treasury. CFC=an interest rate which may be fixed or variable from time to time as provided in the CFC Loan Agreement pertaining to a loan which has been made by CFC and guaranteed by RUS. CoBank=an interest rate which may be fixed or variable from time to time as provided in the CoBank Loan Agreement pertaining to a loan which has been made by CoBank and guaranteed by RUS.

²In addition to this note which the Mortgagor has issued to FFB, the Mortgagor has also issued a corresponding promissory note to RUS designated as the certain "Reimbursement Note" bearing even date therewith. Such Reimbursement Note is payable to the Government on demand and evidences the Mortgagor's obligation immediately to repay RUS, any payment which RUS may make pursuant to the RUS guarantee of such FFB note, together with interest, expenses and penalties (all as described in such Reimbursement Note). Such Reimbursement Note is an "Additional Note issued to the Government" for purposes of this Part One of Schedule A of this Supplemental Mortgage and is entitled to all of the benefits and security of the Mortgage.

³See footnote 2 in this Schedule A.

⁴See footnote 1 in this Schedule A.

SCHEDULE A: Part Two

The outstanding secured obligations of the Mortgagor referred to in the fourth WHEREAS clause above are evidenced by the Original Notes described below:

ORIGINAL NOTES issued to CFC

<u>CFC Loan Designation</u>	<u>Face Amount of Note</u>	<u>Note Date</u>	<u>Maturity Date</u>
AZ013-C-9002	\$662,000.00	10/04/1974	10/04/2009
AZ013-C-9004	\$440,000.00	02/20/1976	02/20/2011
AZ013-C-9007	\$1,401,000.00	07/18/1977	07/18/2012
AZ013-C-9011	\$430,000.00	04/25/1979	04/25/2014
AZ013-C-9014	\$1,399,000.00	11/26/1980	11/26/2015
AZ013-C-9017	\$1,607,000.00	01/26/1983 (substituted 11/18/1987)	01/26/2018
AZ013-C-9018	\$2,704,167.00	03/05/1987	03/05/2022
AZ013-C-9019	\$1,559,794.00	03/03/1993	03/03/2028
AZ013-C-9020	\$4,792,557.00	09/10/2003	12/30/2015

Supplemental Mortgage Schedule B

Property Schedule

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ATTACHMENT B

Debtor: Navopache Electric Cooperative, Inc.

1. A certain tract of land described under one survey, which consolidates properties purchased from various individuals, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 336, Pages 616-617; (Lakeside Headquarters)
2. A certain tract of land described in a certain deed, dated May 26, 1950, by M. V. Gibbons and Mary H. Gibbons, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Book 31 of Deeds, Pages 207-208; (St Johns Office and Yard)
3. A certain tract of land described in a certain deed, dated March 9, 1962, by Roland S. Hamblin and Josephine W. Hamblin, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 51, Page 393; (Eagar Substation)
4. A certain tract of land described in a certain deed, dated March 24, 1965, by F. D. McCarty and his wife Mrs. F. D. McCarty, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Catron County, Reserve, New Mexico, in Volume M of Deeds, Page 34; (Reserve Office and Yard)
5. A certain tract of land described in a certain deed, dated May 28, 1974, by the Town of Springerville, Arizona, by Jack Becker, Vice Mayor, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 191, Page 564; (Springerville Office and Yard)
6. A certain tract of land described in a certain deed, dated March 31, 1975, by Melvin C. Greer and Elenor Greer, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 210, Page 188; (St. Johns Substation)
7. A certain tract of land described in a certain deed, dated June 18, 1975, by Jay M. Patterson and Jane R Patterson, his wife; Charles A. Patterson and Ruthe U. Patterson, his wife; Rob Roy Patterson and Diane Patterson, his wife; and Dorothy P Bast, a divorced woman, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 212, Page 448; (Concho Substation)

8. A certain tract of land described in a certain deed, dated July 29, 1981, by Nu West Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 670, Pages 138-142; (Pinetop Lakes Substation)
9. A certain tract of land described in a certain deed, dated November 3, 1988, by Overgaard Associates, Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 958, Pages 214-223; (Overgaard Office and Yard)
10. A certain tract of land described in a certain deed, dated February 17, 1994, by J. Harris Crosby, as President of Escudilla Cattle Co., a Limited Partnership, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, as Instrument #94007305, Book 768, Page 530; (Nutrioso Substation)
11. A certain tract of land described in a certain deed, dated April 1, 2005, by the Town of Pinetop/Lakeside Municipal Property Corporation, by Russ E Evans, President, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Recording #2005-09373; (Property to be used for New Headquarters)

RUS PROJECT DESIGNATION:

ARIZONA 13-AD44 NAVAJO

SUPPLEMENTAL MORTGAGE

made by and among

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 West White Mountain Boulevard
Lakeside, Arizona 85929,

Mortgagor, and

UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of October 3, 2005

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OBLIGATIONS.
MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0039819-9.

No. 5

Generated: September 22, 2005

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SUPPLEMENTAL MORTGAGE, dated as of October 3, 2005 (hereinafter sometimes called this "Supplemental Mortgage"), is made by and among NAVOPACHE ELECTRIC COOPERATIVE, INC. (hereinafter called the "Mortgagor"), a corporation existing under the laws of the State of Arizona, and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government") and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (hereinafter called "CFC"), a corporation existing under the laws of the District of Columbia, and is intended to confer rights and benefits on both the Government and CFC, in accordance with this Supplemental Mortgage and the Original Mortgage (hereinafter defined) (the Government and CFC being hereinafter sometimes collectively referred to as the "Mortgagees").

RECITALS

WHEREAS, the Mortgagor, the Government and CFC are parties to that certain Restated Mortgage and Security Agreement (the "Original Mortgage" as identified in Schedule "A" of this Supplemental Mortgage) originally entered into among the Mortgagor, the Government acting by and through the Administrator of the Rural Utilities Service (hereinafter called "RUS"), and CFC; and

WHEREAS, the Original Mortgage as the same may have been previously supplemented, amended or restated is hereinafter referred to as the "Existing Mortgage"; and

WHEREAS, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same, and to enter into this Supplemental Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity, hereunder and under the Existing Mortgage (this Supplemental Mortgage and the Existing Mortgage, hereinafter sometimes collectively referred to as the "Mortgage"); and

WHEREAS, all of the Mortgagor's Outstanding Notes listed in Schedule "A" hereto are secured pari passu by the Existing Mortgage for the benefit of all of the Mortgagees under the Existing Mortgage; and

WHEREAS, the Existing Mortgage provides the terms by which additional pari passu obligations may be issued thereunder and further provides that the Existing Mortgage may be supplemented from time to time to evidence that such obligations are entitled to the security of the Existing Mortgage and to add additional Mortgagees; and

WHEREAS, by their execution and delivery of this Supplemental Mortgage the parties hereto do hereby secure the Additional Notes listed in Schedule "A" pari passu with the Outstanding Notes under the Existing Mortgage; and

WHEREAS, all acts necessary to make this Supplemental Mortgage a valid and binding legal instrument for the security of such notes and obligations under the terms of the Mortgage, have been in all respects duly authorized;

Now, Therefore, This Supplemental Mortgage Witnesseth: That to secure the payment of the principal of (and premium, if any) and interest on all Notes and all Notes issued hereunder according to their tenor and effect, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge, and grant a continuing security interest in for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein or any other kind or nature, except any Excepted Property, set forth on

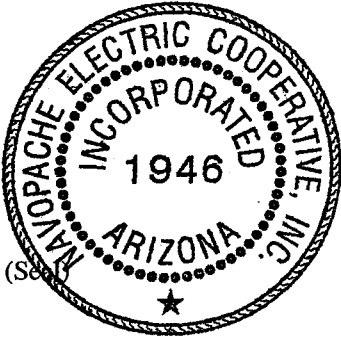
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- B. all of those fee and leasehold interests in real property set forth in Schedule "B" of the Existing Mortgage or in any restatement, amendment or supplement thereto, subject in each case to those matters set forth in such Schedule; and
- C. all of the kinds, types or items of property, now owned or hereafter acquired, described as Mortgaged Property in the Existing Mortgage or in any restatement, amendment or supplement thereto as Mortgaged Property.

It is further Agreed and Covenanted That the Original Mortgage, as previously restated, amended or supplemented, and this Supplement shall constitute one agreement and the parties hereto shall be bound by all of the terms thereof and, without limiting the foregoing.

- 1. All capitalized terms not defined herein shall have the meaning given in Article I of the Existing Mortgage.
- 2. This Supplemental Mortgage is one of the Supplemental Mortgages contemplated by Article II of the Original Mortgage.
- 3. The Maximum Debt Limit for the Mortgage shall be as set forth in Schedule "A" hereto.

IN WITNESS WHEREOF, NAVOPACHE ELECTRIC COOPERATIVE, INC., as Mortgagor, has caused this Supplemental Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, UNITED STATES OF AMERICA, as Mortgagee and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagee, have each caused this Supplemental Mortgage to be signed in their respective names by duly authorized persons, all as of this day and year first above written.



NAVOPACHE ELECTRIC COOPERATIVE, INC.

by Bradley C. Baker, President

Attest:

Secretary Ann Menger

Executed by the Mortgagor
in the presence of:

Stephan P. Vachek
Bill Arundell
Witnesses

UNITED STATES OF AMERICA

by Antony A. Adam

Acting Administrator
of the
Rural Utilities Service

Executed by United States of America,
Mortgagee, in the presence of:

Stanley E. Wood
Rebecca J. [Signature]
Witnesses

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION

by *Niels Poulsen*

Assistant Secretary-Treasurer
ROBERT D STEPHENS

(SEAL)

Attest:

Eileen Iciek

EILEEN ICIEK

Assistant Secretary-Treasurer

Executed by the above-named, Mortgagee, in the
presence of:

Bruce MacNeil

BRUCE MACNEIL

[Signature]

NIELS POULSEN

Witnesses

STATE OF ARIZONA

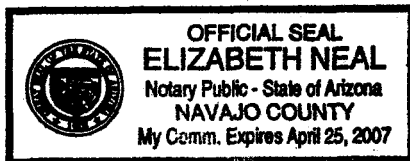
COUNTY OF

Navajo

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) SS
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On this 24th day of May, 2006, before me
Elizabeth Neal, the undersigned officer, personally appeared Bradley L Baker
and Ann Menges, who acknowledged
themselves to be the President and Secretary, respectively, of Navopache Electric Cooperative, Inc., a corporation,
and that they, as such President and Secretary, being authorized so to do, executed the foregoing instrument, for the
purposes therein contained, by signing the name of the corporation by themselves as President and Secretary.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.



(Notarial Seal)

Elizabeth Neal

Notary Public

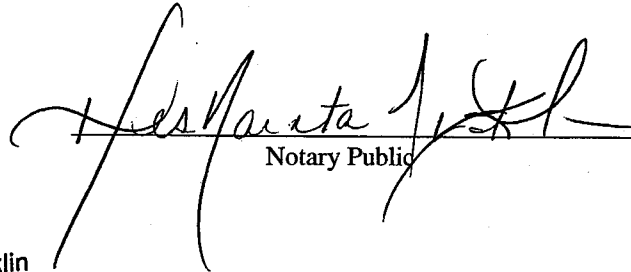
My commission expires:

DISTRICT OF COLUMBIA

) SS

On this 29th day of September, 2005, personally appeared before me
CURTIS M. ANDERSON *Acting*, who, being duly sworn, did say that he is the Administrator of
the Rural Utilities Service, an agency of the United States of America, and acknowledged to me that, acting under a
delegation of authority duly given and evidenced by law and presently in effect, he executed said instrument as the
act and deed of the United States of America for the uses and purposes therein mentioned.

IN TESTIMONY WHEREOF I have heretofore set my hand and official seal the day and year last above
written.


Notary Public

(Notarial Seal)

DeShaunta L. Franklin
Notary Public, District of Columbia
My Commission Expires 9-30-2010

My commission expires: _____

COMMONWEALTH OF VIRGINIA

)
) SS
)

COUNTY OF FAIRFAX

On this

5th

day of

October

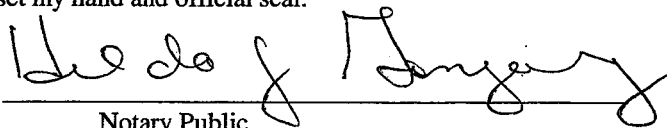
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, before me appeared

ROBERT D STEPHENS

, to me personally known, who, being by me
duly sworn, did say that he is the ASSISTANT SECRETARY-TREASURER of the National Rural Utilities
Cooperative Finance Corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said
corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of
directors and said ASSISTANT SECRETARY-TREASURER acknowledged said instrument to be the free act and
deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.



Notary Public

(Notarial Seal)

Hilda J. Gonzalez

NOTARY PUBLIC

Commonwealth of Virginia

My commission expires:

My Commission Expires 12/31/2008

Supplemental Mortgage Schedule A - Part One

Maximum Debt Limit and Other Information

1. The Maximum Debt Limit is \$175,000,000.00.
2. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows:

<u>Instrument Title</u>	<u>Instrument Date</u>
Restated Mortgage and Security Agreement	August 1, 2003

3. The Outstanding Notes referred to in the fourth WHEREAS clause above that are Government Notes are more particularly described as follows:

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate</u> ¹
R	\$1,217,000.00	23 Aug 1967	27 Aug 2008	2.00
X6	\$3,561,000.00	26 Jan 1983	26 Jan 2018	5.00
Y6	\$6,058,000.00	5 Mar 1987	5 Mar 2022	5.00
Z6	\$3,532,000.00	3 Mar 1993	3 Mar 2028	5.00
AA42	\$8,329,663.00	1 Aug 1996	1 Aug 2031	5.00
AB8 ²	\$24,571,000.00	1 Nov 2002	31 Dec 2036	V
AC8 ³	\$3,145,000.00	1 Aug 2003	31 Dec 2034	V

4. The Additional Notes described in the sixth WHEREAS clause above are more particularly described as follows:

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate</u> ⁴
AD44	\$33,231,000.00	3 Oct 2005	3 Oct 2040	V

¹V=variable interest rate calculated by RUS pursuant to title 7 of the Code of Federal Regulations or by the Secretary of Treasury. CFC=an interest rate which may be fixed or variable from time to time as provided in the CFC Loan Agreement pertaining to a loan which has been made by CFC and guaranteed by RUS. CoBank=an interest rate which may be fixed or variable from time to time as provided in the CoBank Loan Agreement pertaining to a loan which has been made by CoBank and guaranteed by RUS.

²In addition to this note which the Mortgagor has issued to FFB, the Mortgagor has also issued a corresponding promissory note to RUS designated as the certain "Reimbursement Note" bearing even date therewith. Such Reimbursement Note is payable to the Government on demand and evidences the Mortgagor's obligation immediately to repay RUS, any payment which RUS may make pursuant to the RUS guarantee of such FFB note, together with interest, expenses and penalties (all as described in such Reimbursement Note). Such Reimbursement Note is an "Additional Note issued to the Government" for purposes of this Part One of Schedule A of this Supplemental Mortgage and is entitled to all of the benefits and security of the Mortgage.

³See footnote 2 in this Schedule A.

⁴See footnote 1 in this Schedule A.

SCHEDULE A: Part Two

The outstanding secured obligations of the Mortgagor referred to in the fourth WHEREAS clause above are evidenced by the Original Notes described below:

ORIGINAL NOTES issued to CFC

<u>CFC Loan Designation</u>	<u>Face Amount of Note</u>	<u>Note Date</u>	<u>Maturity Date</u>
AZ013-C-9002	\$662,000.00	10/04/1974	10/04/2009
AZ013-C-9004	\$440,000.00	02/20/1976	02/20/2011
AZ013-C-9007	\$1,401,000.00	07/18/1977	07/18/2012
AZ013-C-9011	\$430,000.00	04/25/1979	04/25/2014
AZ013-C-9014	\$1,399,000.00	11/26/1980	11/26/2015
AZ013-C-9017	\$1,607,000.00	01/26/1983 (substituted 11/18/1987)	01/26/2018
AZ013-C-9018	\$2,704,167.00	03/05/1987	03/05/2022
AZ013-C-9019	\$1,559,794.00	03/03/1993	03/03/2028
AZ013-C-9020	\$4,792,557.00	09/10/2003	12/30/2015

ATTACHMENT B

Debtor: Navopache Electric Cooperative, Inc.

1. A certain tract of land described under one survey, which consolidates properties purchased from various individuals, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 336, Pages 616-617; (Lakeside Headquarters)
2. A certain tract of land described in a certain deed, dated May 26, 1950, by M. V. Gibbons and Mary H. Gibbons, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Book 31 of Deeds, Pages 207-208; (St Johns Office and Yard)
3. A certain tract of land described in a certain deed, dated March 9, 1962, by Roland S. Hamblin and Josephine W. Hamblin, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 51, Page 393; (Eagar Substation)
4. A certain tract of land described in a certain deed, dated March 24, 1965, by F. D. McCarty and his wife Mrs. F. D. McCarty, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Catron County, Reserve, New Mexico, in Volume M of Deeds, Page 34; (Reserve Office and Yard)
5. A certain tract of land described in a certain deed, dated May 28, 1974, by the Town of Springerville, Arizona, by Jack Becker, Vice Mayor, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 191, Page 564; (Springerville Office and Yard)
6. A certain tract of land described in a certain deed, dated March 31, 1975, by Melvin C. Greer and Elenor Greer, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 210, Page 188; (St. Johns Substation)
7. A certain tract of land described in a certain deed, dated June 18, 1975, by Jay M. Patterson and Jane R Patterson, his wife; Charles A. Patterson and Ruthe U. Patterson, his wife; Rob Roy Patterson and Diane Patterson, his wife; and Dorothy P Bast, a divorced woman, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 212, Page 448; (Concho Substation)

8. A certain tract of land described in a certain deed, dated July 29, 1981, by Nu West Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 670, Pages 138-142; (Pinetop Lakes Substation)
9. A certain tract of land described in a certain deed, dated November 3, 1988, by Overgaard Associates, Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 958, Pages 214-223; (Overgaard Office and Yard)
10. A certain tract of land described in a certain deed, dated February 17, 1994, by J. Harris Crosby, as President of Escudilla Cattle Co., a Limited Partnership, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, as Instrument #94007305, Book 768, Page 530; (Nutrioso Substation)
11. A certain tract of land described in a certain deed, dated April 1, 2005, by the Town of Pinetop/Lakeside Municipal Property Corporation, by Russ E Evans, President, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Recording #2005-09373; (Property to be used for New Headquarters)

The Law Offices of
**CURTIS, GOODWIN, SULLIVAN,
UDALL & SCHWAB, P.L.C.**

2712 North Seventh Street
Phoenix, Arizona 85006-1003

Telephone (602) 393-1700
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Nancy A. Mangone

William P. Sullivan
Larry K. Udall
Anja K. Wendel
K. Russell Romney
Steve G. Zraick

Of Counsel
Joseph F. Abate
Thomas A. Hine
David M. Lujan

REFER TO FILE NO. 109-12-15-3

May 24, 2006

Administrator
Rural Utilities Service
U.S. Department of Agriculture
Washington, D.C. 20250-1500

Re: ARIZONA 13-AD44 NAVAJO
Navopache Electric Cooperative's Loan Request for \$33,231,000.00

Dear Sir:

We have examined the Articles of Incorporation and Bylaws of Navopache Electric Cooperative, Inc. (hereinafter called the "Borrower"), now in effect. We have also examined all corporate proceedings of the Borrower relating to the adoption of the bylaws of the Borrower or any amendments to the Bylaws or the Articles of Incorporation of the Borrower and the action taken by the Borrower, its members and board of directors in connection with the authorization of:

- a) The borrowing by the Borrower from the United States of America (hereinafter called the "Government") of an amount not to exceed \$33,231,000.00, as provided for in the loan contract (hereinafter called the "RUS Loan Contract"), dated as of October 2, 3005, between the Borrower and the Government, acting through the Administrator of the Rural Utilities Service; and
- b) The execution and delivery by the Borrower of: (1) the RUS Loan Contract, (2) the note (hereinafter called the "RUS Note") dated October 3, 2005, in the principal amount of \$33,231,000.00, payable to the order of the Government, and (3) the supplemental mortgage (hereinafter called the "Supplemental Mortgage"),

dated as of October 3, 2005, made by and among the Borrower, the Government and National Rural Utilities Cooperative Finance Corporation.

We have also examined all corporate proceedings of the Borrower relating to the election of the directors and officers holding office at the above-mentioned corporate proceedings occurred.

We have also examined the following documents as executed and delivered: the RUS Loan Contract, RUS Note and Supplemental Mortgage.

We have also examined the Existing Mortgage, as such term is defined in the Supplemental Mortgage. The Existing Mortgage, as amended and supplemented by the Supplemental Mortgage, is hereinafter called the "Mortgage."

We have also examined, or caused to be examined by competent and trustworthy persons, the records and files of all offices in which there might be recorded, filed or indexed any liens of any nature whatsoever affecting the title to any real or personal property of the Borrower other than easements or rights-of-way relating to the electric lines of the Borrower.

We have supervised, or examined, or caused to be examined by competent and trustworthy persons, the recordation of the Mortgage as a mortgage or real property in each of the counties in which the Borrower owns real property.

We are of the opinion that:

- a) The Borrower is a duly organized and existing corporation in good standing under the laws of the State of Arizona, and is duly authorized to transact business in the State of New Mexico; its Bylaws have been duly adopted and its Articles of Incorporation and Bylaws in the form last submitted by the Borrower to the Government are now in effect, and the Borrower has corporate power: (1) to execute and deliver the RUS Loan Contract; (2) to perform all acts required to be done by it under the RUS Loan Contract and under the Mortgage; and (3) to own, operate and maintain the Utility System as such term is defined in the Mortgage;
- b) All proceedings of the Borrower, its members and board of directors, necessary to be taken in connection with the authorizations specified in the first paragraph hereof have been duly taken and all such authorizations are presently in effect;
- c) All authorizations from the Arizona Corporation Commission, required in connection with the execution and delivery of the RUS Loan Contract, the Mortgage and the RUS Note have been obtained;
- d) The RUS Loan Contract has been duly executed and delivered by the Borrower in accordance with the authorizations thereof mentioned above and is the valid and

binding obligation of the Borrower in accordance with its terms (except as such enforcement may be limited by: (1) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws in effect at the time affecting creditors' rights generally and (2) applicable laws and equitable principles with respect to or affecting the availability of remedies provided for therein, however, in our opinion neither (1) nor (2) will limit the practical realization of the benefits or the security intended to be provided thereby);

- e) The RUS Note has been duly executed and has been delivered by the Borrower to the Government in accordance with the authorizations thereof mentioned above and is the valid obligation of the Borrower in accordance with its terms and is validly secured by the Mortgage (except as such enforcement may be limited by: (1) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws in effect at the time affecting creditors' rights generally and (2) applicable laws and equitable principles with respect to or affecting the availability of remedies provided for therein, however, in our opinion neither (1) nor (2) will limit the practical realization of the benefits or the security intended to be provided thereby);
- f) The Supplemental Mortgage has been duly executed and delivered by the Borrower in accordance with the authorizations thereof mentioned above and is the valid obligation of the Borrower in accordance with its terms (except as such enforcement may be limited by: (1) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws in effect at the time affecting creditors' rights generally and (2) applicable laws and equitable principles with respect to or affecting the availability of remedies provided for therein, however, in our opinion neither (1) nor (2) will limit the practical realization of the benefits or the security intended to be provided thereby);
- g) No legal proceedings have been instituted or are pending to which the Borrower is a party or which affect the Borrower or any of its property and there are no judgments against the Borrower and no liens against any of the real or personal property of the Borrower, except the liens of the Mortgage and Permitted Encumbrances, as such term is defined in the Mortgage;
- h) The Mortgage has been duly recorded and filed and indexed to constitute the Mortgage a validly recorded and filed and indexed first lien upon the real property of the Borrower therein described; and
- i) The several advances provided for in the RUS Loan Contract, when made or caused to be made by the Government to the Borrower, will be duly secured by the Mortgage and Financing Statement as a validly recorded and filed and indexed first lien upon the property referred to in paragraph (h) hereof without necessity

Administrator, Rural Utilities Service
Re: ARIZONA 13-AD44 NAVAJO
May 24, 2006
Page 4

for further act by or on behalf of the Government, subject only to Permitted
Encumbrances, as such term is defined in the Mortgage.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael A. Curtis". The signature is stylized with a large, looped "M" and a trailing flourish.

Michael A. Curtis
For the Firm

MAC/ceh

F:\109\12-15-3 ACC Finance App 33 mil\Letters\Administrator Rural Utility Services 05-05-06.doc

The Law Offices of
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Of Counsel
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David M. Lujan

REFER TO FILE NO. 109-12-15-3

May 24, 2006

National Rural Utilities
Cooperative Finance Corporation
Woodland Park
2201 Cooperative Way
Herndon, Virginia 20171-3025

Attn: General Counsel

Re: CFC mortgage documents for RUS loan number AZ013-M-AD44

Dear Sir:

I am counsel for Navopache Electric Cooperative, Inc., organized under the laws of the State of Arizona ("Borrower"). I have examined such corporate records and proceedings of the Borrower, and such other documents as I have deemed necessary as a basis for the opinions hereinafter expressed.

I have also examined the Supplemental Mortgage, dated as of October 3, 2005, made by and between the Borrower, CFC and the United States of America as it may have been supplemented, amended, consolidated or restated from time to time ("Mortgage").

I have also examined (or caused to be examined by members of my firm) the records and files of all offices in which there might be recorded, filed or indexed evidence of the Borrower's title, and any liens of any nature whatsoever affecting the title, to any real or personal property of the Borrower, other than easements or rights of way relating to the electric lines of the Borrower.

I

I have supervised, examined, or caused to be examined by competent and trustworthy persons, (i) the recordation of the Mortgage as a mortgage of real property in the

counties of Apache and Navajo, Apache in Arizona and the county of Catron in New Mexico; and (ii) the file of the Mortgage as a financing statement ("Financing Statement") with the Secretary of State for the state of Arizona and the Secretary of State with the state of New Mexico and in such other locations necessary to provide CFC with a perfected lien on all of the Borrower's Mortgaged Property (as defined in the Mortgage) to the extent set forth below. All taxes, recording and filing fees required to be paid in connection with the recording of the Mortgage and the filing of the Financing Statement have been paid.

Based on the foregoing, I am of the opinion that:

(i) the Borrower is a duly organized, validly existing corporation and in good standing under the law of the jurisdiction of its organization, and the Borrower has full corporate power (a) to execute and deliver the Mortgage; (b) to perform all acts required to be done by it under the Mortgage; and (c) to own, operate and maintain its properties and operate its business as conducted at the date of this Opinion;

(ii) to the extent reasonably required for the maintenance and operation of its properties and business taken as a whole, the Borrower has complied with all requirements of the laws of all States in which it operates or does business; and, the Borrower holds all certificates, licenses, consents or approvals of governmental authorities required to be obtained on or prior to the date of this Opinion to enable it to engage in the business then transacted by it;

(iii) the Mortgage has been duly authorized, executed and delivered by the Borrower to CFC and constitutes the valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with its terms, provided, however, that: (A) enforceability may be limited by bankruptcy, insolvency or other similar laws of general application relating to or affecting the enforcement of creditors' rights; and (B) applicable law may limit or impose conditions upon the exercise of certain remedies included in the Mortgage, but such limitations or conditions will not affect the validity of the Mortgage, which contains adequate enforceable provisions for the practical realization of the substantive benefits and security purported to be afforded thereby;

(iv) the execution and performance by the Borrower of the Mortgage, and the transactions contemplated thereby will not violate any provision of law, the articles of incorporation, or bylaws of the Borrower, or result in the breach of, or constitute a default under, any agreement, indenture or other instrument to which the Borrower is a party, or by which it may be bound, known to the undersigned;

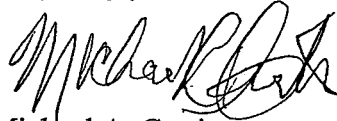
(v) no authorization from any regulatory body is required in connection with the execution, delivery and performance of the Mortgage;

(vi) I know of no litigation pending or threatened against or affecting the Borrower or its property which, in my opinion, would have a material adverse effect upon the business, operations or financial condition of the Borrower; and

General Counsel
May 24, 2006
Page 3

(vii) the Mortgage creates a validly recorded, filed and perfected lien on, and security interest in, all of Borrower's real and personal property subject and subordinate only to those liens and encumbrances expressly permitted by the Mortgage.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael A. Curtis", written over a horizontal line.

Michael A. Curtis
For the Firm

MAC/

F:\109\12-15-3 ACC Finance App 33 mil\Letters\OPINION.CFC



State of New Mexico
Office of the New Mexico Secretary of State
Rebecca Vigil-Giron
FILING ACKNOWLEDGMENT

06/09/2006

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Attn: Legal Administrative Assistant
Herndon, VA 20171-3025
United States

File Number: 20060011226A Filing Date: 06/09/2006 8:00 AM Filing Type: Transmitting Utility
Lapse Date: Pages: 9

Indexed Debtor(s):

Commercial: Navopache Electric Cooperative, inc., 1878 West White Mountain Boulevard, Lakeside, AZ, 85929

Secured Party(s) / Assignee(s):

Commercial: United States of America, Rural Utilities Service, USDA, 1400 Independence Avenue, S.W., Washington, DC, 20250-1500

Commercial: National Rural Utilities Cooperative Finance Corporation, 2201 Cooperative Way, Herndon, VA, 20171-3025

Other Information:

Please review the above information that was indexed in our database. We have indexed the above information exactly as it was presented on your enclosed filing. If there is an error please contact our office at the number listed below. If you wish to make a change from your original document an amendment (UCC-3) with the appropriate fee is required. If you are due a refund it will be sent under separate cover.

Please refer to the Secretary of State's web page at
www.sos.state.nm.us for additional filing information.

SECRETARY OF STATE

Folder: T0616005001 Tracking:
T0616005001

File Number: 20060011226A
Date Filed: 06/09/2006 08:00 AM
Rebecca Vigil-Giron
Secretary of State

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A NAME & PHONE OF CONTACT AT FILER [optional]

B SEND ACKNOWLEDGMENT TO (Name and Address)

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, VA 20171-3025
Attn: Legal Administrative Assistant

State of New Mexico
UCC1 Initial Filing 9 Page(s)



T0616005001

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1 DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a ORGANIZATION'S NAME

Navopache Electric Cooperative, Inc.

OR 1b INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c MAILING ADDRESS

1878 West White Mountain Boulevard

CITY

Lakeside

STATE

AZ

POSTAL CODE

85929

COUNTRY

USA

1d TAX ID # SSN OR EIN

86-0079371

ADD'L INFO RE
ORGANIZATION
DEBTOR

1e TYPE OF ORGANIZATION
Corporation

1f JURISDICTION OF ORGANIZATION

Arizona

1g ORGANIZATIONAL ID #, if any

0039819-9

☐ NONE

2 ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a ORGANIZATION'S NAME

OR 2b INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c MAILING ADDRESS

CITY

STATE

POSTAL CODE

COUNTRY

2d TAX ID # SSN OR EIN

ADD'L INFO RE
ORGANIZATION
DEBTOR

2e TYPE OF ORGANIZATION

2f JURISDICTION OF ORGANIZATION

2g ORGANIZATIONAL ID #, if any

☐ NONE

3 SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a ORGANIZATION'S NAME

United States of America, Rural Utilities Service, USDA

OR 3b INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c MAILING ADDRESS

1400 Independence Avenue, S.W.

CITY

Washington

STATE

DC

POSTAL CODE

20250-1500

COUNTRY

USA

4 This FINANCING STATEMENT covers the following collateral

Refer to Attachments "A" and "B" attached hereto and incorporated herein

5 ALTERNATIVE DESIGNATION (if applicable) LESSEE-LESSOR CONSIGNEE/CONSIGNOR BAILEE-BAILOR SELLER/BUYER AG LIEN NON UCC FILING

6 This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS Attach Addendum (if applicable) 7 Check to REQUEST SEARCH REPORT(S) on Debtor(s) (optional) All Debtors Debtor 1 Debtor 2

8 OPTIONAL FILER REFERENCE DATA

Arizona 13-AD44 Navajo

Arizona Secretary of State's Office

Certificate of Financing Statements

Page: 1

The search date and time listed below reflect the date and time the search was conducted. The date and time through this search is effective to reveal all relevant UCC records filed on or prior to the date: June 15, 2006

As of July 13, 2006 at 10:17 AM, the attached pages are listings of presently effective, terminated, or lapsed within past year financing statements, statements of assignment or tax liens on file with the Secretary of State's Office for:

DEBTOR Organization Name = NAVOPACHE ELECTRIC COOPERATIVE, INC.

Dated: 7/13/2006

By:


W. Begay

Requested by:



The foregoing document is a complete,
true and correct copy of the document
filed with the Secretary of State.

Janice K. Brewer, Arizona Secretary of State

By Wynema Benay

Date 7/13/06

Arizona Secretary of State's Office**Certificate of Financing Statements**

File No: 1246141-9

Originated: 1/14/2003 Expires:

Lien Type: Utility

Type: New Filing

Filed: Jan 14, 2003 03:58 PM

Optical: 17 Page(s)

Entered: Jan 15, 2003 11:29 AM

____ \$ ____

Debtors

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 W WHITE MOUNTAIN BLVD
P O BOX 308
LAKESIDE, AZ 85929

Secured Parties

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION
2201 COOPERATIVE WAY
HERNDON, VA 20171

File No: 1428775-7

Originated: 7/11/2006 Expires:

Lien Type: Utility

Type: New Filing

Filed: Jul 11, 2006 10:10 AM

Optical: 9 Page(s)

Entered: Jul 11, 2006 04:56 PM

____ \$ ____

Debtors

NAVOPACHE ELECTRIC COOPERATIVE, INC.
1878 W WHITE MOUNTAIN BLVD
LAKESIDE, AZ 85929

Secured Parties

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION
2201 COOPERATIVE WAY
HERNDON, VA 201713025

UNITED STATES OF AMERICA, RURAL
UTILITIES SERVICE, USDA
1400 INDEPENDENCE AVE S.W.
WASHINGTON, DC 202501500

**CURTIS, GOODWIN, SULLIVAN,
UDALL & SCHWAB, P.L.C.**

2712 North 7th Street
Phoenix, Arizona 85006-1003
Telephone: (602) 393-1700 Fax: (602) 393-1703

FAX TRANSMITTAL COVER SHEET

DATE: July 13, 2006
TO: Mr. Paul O'Dair
FAX NO: 928-368-6038
FROM: Larry K. Udall
FILE NO: 109-12-15-3

WE ARE SENDING 4 PAGE(S), WHICH INCLUDES THIS COVER SHEET.

COMMENTS:

Paul -

Here's the "acknowledgement" for the UCC 1 financing statement. This should be sufficient for you to submit your remaining documents to consummate the loan closing. We will forward to you the original "acknowledgement" of what we have received as the confirmation of the filing. However, the original UCC 1 that I filed on Tuesday (the copy you faxed to me) will be forwarded to CFC. The UCC division of the Secretary of State has a long-standing practice of forwarding the original UCC 1 for a "utility matter" to the governmental agency. Please forward a copy of your entire loan package to us. They still have no information on the UCC 1 you mailed two months ago. Thanks for your help. Please call if you have any questions.

Larry Udall

IF YOU DO NOT RECEIVE ALL PAGE(S) AS INDICATED, PLEASE CALL
CHRIS HASTINGS AT (602) 393-1700 IMMEDIATELY.

HARD COPY WILL NOT FOLLOW UNLESS METHOD INDICATED BELOW:

☐ BY REGULAR MAIL ☐ BY OVERNIGHT MAIL ☐ BY HAND DELIVERY

WARNING: The information contained in this facsimile message is confidential information intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please immediately notify us by telephone, and return the original message to us at the above address via the U.S. Postal Service. Thank you.

TRANSMITTING FROM A XEROX CFX-L 4500 IF AUTOMATIC MACHINE

SEC OF STATE
1700W WASHINGTON
PHX. AZ. 85007

07/11/2006 10:19AM ****
000004#8628 WYNEMA

P000250
UCC 1/DISP COLL \$5.00
P000203
EXPEDITE SERVICE \$25.00

CASH \$30.00



JAN BREWER
Secretary of State

CUSTOMER SERVICE CENTER

*14 N. 18th Avenue
Between Jefferson and Adams*

Mailing Address:
1700 West Washington Street, 7th Floor
Phoenix, Arizona 85007
602-542-6187 Fax: 602-542-7386
www.azsos.gov

500

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER [optional]

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, VA 20171-3025
Attn: Legal Administrative Assistant

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME

Navopache Electric Cooperative, Inc.

OR 1b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

1c. MAILING ADDRESS

1878 West White Mountain Boulevard

CITY

Lakeside

STATE

AZ

POSTAL CODE

85929

COUNTRY

USA

1d. TAX ID #: SSN OR EIN

86-0079371

ADD'L INFO RE
ORGANIZATION
DEBTOR

1e. TYPE OF ORGANIZATION

Corporation

1f. JURISDICTION OF ORGANIZATION

Arizona

1g. ORGANIZATIONAL ID #, if any

0039819-9

☐ NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR 2b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

2c. MAILING ADDRESS

CITY

STATE

POSTAL CODE

COUNTRY

2d. TAX ID #: SSN OR EIN

ADD'L INFO RE
ORGANIZATION
DEBTOR

2e. TYPE OF ORGANIZATION

2f. JURISDICTION OF ORGANIZATION

2g. ORGANIZATIONAL ID #, if any

☐ NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME

United States of America, Rural Utilities Service, USDA

OR 3b. INDIVIDUAL'S LAST NAME

FIRST NAME

MIDDLE NAME

SUFFIX

3c. MAILING ADDRESS

1400 Independence Avenue, S.W.

CITY

Washington

STATE

DC

POSTAL CODE

20250-1500

COUNTRY

USA

4. This FINANCING STATEMENT covers the following collateral:

Refer to Attachments "A" and "B" attached hereto and incorporated herein.

5. ALTERNATIVE DESIGNATION (if applicable):

☐ LESSEE/LESSOR

☐ CONSIGNEE/CONSIGNOR

☐ BAILEE/BAILOR

☐ SELLER/BUYER

☐ AG. LIEN

☐ NON-UCC FILING

6. ☐ This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS. Attach Addendum (if applicable)

7. Check to REQUEST SEARCH REPORT (S) on Debtor(S) (optional) ☐ ADDITIONAL FEE

☐ All Debtors

☐ Debtor 1

☐ Debtor 2

8. OPTIONAL FILER REFERENCE DATA

Arizona 13-AD44 Navajo

UCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

9. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

9a. ORGANIZATION'S NAME Navopache Electric Cooperative, Inc.		
OR	9b. INDIVIDUAL'S LAST NAME	FIRST NAME MIDDLE NAME, SUFFIX

10. MISCELLANEOUS:

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

11. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one name (11a or 11b) - do not abbreviate or combine names

11a. ORGANIZATION'S NAME				
OR	11b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX
11c. MAILING ADDRESS		CITY	STATE	POSTAL CODE COUNTRY
11d. TAX ID #: SSN OR EIN	ADD'L INFO RE ORGANIZATION DEBTOR	11e. TYPE OF ORGANIZATION	11f. JURISDICTION OF ORGANIZATION	11g. ORGANIZATIONAL ID #, if any <input type="checkbox"/> NONE

12. ☒ ADDITIONAL SECURED PARTY'S or ☐ ASSIGNOR S/P'S NAME - insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME National Rural Utilities Cooperative Finance Corporation				
OR	12b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX
12c. MAILING ADDRESS 2201 Cooperative Way		CITY Herndon	STATE VA	POSTAL CODE 20171-3025 COUNTRY USA

13. This FINANCING STATEMENT covers ☐ timber to be cut or ☐ as-extracted collateral, or is filed as a ☒ fixture filing.

14. Description of real estate:

Refer to Attachment "B" attached hereto and incorporated by reference herein.

15. Name and address of a RECORD OWNER of above-described real estate (if Debtor does not have a record interest):

16. Additional collateral description:

17. Check only if applicable and check only one box.

Debtor is a ☐ Trust or ☐ Trustee acting with respect to property held in trust or ☐ Decedent's Estate

18. Check only if applicable and check only one box.

- ☒ Debtor is a TRANSMITTING UTILITY
☐ Filed in connection with a Manufactured-Home Transaction — effective 30 years
☐ Filed in connection with a Public-Finance Transaction — effective 30 years

Attachment A

Debtor: Navopache Electric Cooperative, Inc.

All property, assets, rights, privileges and franchises of the Debtor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein OR ANY OTHER KIND OR NATURE, except any Excepted Property, now owned or hereafter acquired or arising by the Debtor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following (hereinafter sometimes called the "Collateral"):

FIRST

- A. all of those fee and leasehold interests in real property set forth in Attachment "B" hereto, subject in each case to those matters set forth in such Attachment;
- B. all of the Debtor's interest in fixtures, easements, permits, licenses and rights-of-way comprising real property, and all other interests in real property, comprising any portion of the utility system located in the Counties listed in Attachment "B" hereto;
- C. all right, title and interest of the Debtor in and to those contracts of the Debtor
 - (i) relating to the ownership, operation or maintenance of any generation, transmission or distribution facility owned, whether solely or jointly, by the Debtor,
 - (ii) for the purchase of electric power and energy by the Debtor and having an original term in excess of 3 years,
 - (iii) for the sale of electric power and energy by the Debtor and having an original term in excess of 3 years, and
 - (iv) for the transmission of electric power and energy by or on behalf of the Debtor and having an original term in excess of 3 years, including in respect of any of the foregoing, any amendments, supplements and replacements thereto;
- D. all the property, rights, privileges, allowances and franchises particularly described in the annexed Attachment "B" are hereby made a part of, and deemed to be described in, this clause as fully as if set forth in this clause at length; and

ALSO ALL OTHER PROPERTY, real estate, lands, easements, servitudes, licenses, permits, allowances, consents, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same; all power sites, storage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, waterways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water, all rights of way and roads; all plants for the generation of electric and other forms of energy (whether now known or hereafter developed) by steam, water, sunlight, chemical processes and/or (without limitation) all other sources of power (whether now known or hereafter developed), all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, all telephone, radio, television and other communications, image and data transmission systems, air conditioning systems and equipment incidental thereto, water wheels, waterworks, water systems, steam and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereto, all machinery, engines, boilers, dynamos, turbines, electric, gas and other machines, prime movers, regulators, meters, transformers, generators (including, but not limited to, engine-driven generators and turbo generator

Debtor: Navopache Electric Cooperative, Inc.

units), motors, electrical, gas and mechanical appliances, conduits, cables, water, steam, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, towers, overhead conductors and devices, underground conduits, underground conductors and devices, wires, cables, tools, implements, apparatus, storage battery equipment, and all other equipment, fixtures and personalty, all municipal and other franchises, consents, certificates or permits; all emissions allowances, all lines for the transmission and distribution of electric current and other forms of energy, gas, steam, water or communications, images and data for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith, and (except as hereinbefore or hereinafter expressly excepted) all the right, title and interest of the Debtor in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or employed in connection with any property hereinbefore described, but in all circumstances excluding Excepted Property;

SECOND

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under all personal property and fixtures of every kind and nature including without limitation all goods (including inventory, equipment and any accessions thereto), instruments (including promissory notes), documents, accounts, chattel paper, electronic chattel paper, deposit accounts (including, but not limited to, money held in a trust account pursuant hereto or to a loan agreement), letter-of-credit rights, investment property (including certificated and uncertificated securities, security entitlements and securities accounts), software, general intangibles (including, but not limited to, payment intangibles), supporting obligations, any other contract rights or rights to the payment of money, insurance claims, and proceeds (as such terms are presently or hereinafter defined in the applicable UCC; provided, however that the term "instrument" shall be such term as defined in Article 9 of the applicable UCC rather than Article 3);

THIRD

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under any and all agreements, leases or contracts heretofore or hereafter executed by and between the Debtor and any person, firm or corporation relating to the Collateral (including contracts for the lease, occupancy or sale of the Collateral, or any portion thereof);

FOURTH

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under any and all books, records and correspondence relating to the Collateral, including, but not limited to all records, ledgers, leases and computer and automatic machinery software and programs, including without limitation, programs, databases, disc or tape files and automatic machinery print outs, runs and other computer prepared information indicating, summarizing, evidencing or otherwise necessary or helpful in the collection of or realization on the Collateral;

FIFTH

All other property, real, personal or mixed, of whatever kind and description and wheresoever situated, including without limitation goods, accounts, money held in a trust account pursuant hereto or to a loan agreement, and general intangibles now owned or which be hereafter acquired by the Debtor, but excluding Excepted Property, now owned or which may be hereafter acquired by the Debtor, it being the intention hereof that all property, rights, privileges, allowances and franchises now owned by the Debtor or acquired by the Debtor after the date hereof (other than Excepted Property) shall be as fully embraced within and subjected to the lien hereof as if such property were specifically described herein;

Debtor: Navopache Electric Cooperative, Inc.

SIXTH

Also any Excepted Property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien hereof by the Debtor or by anyone in its behalf; and any Secured Party is hereby authorized to receive the same at any time as additional security hereunder for the benefit of all the Secured Parties. Such subjection to the lien hereof of any Excepted Property as additional security may be made subject to any reservations, limitations or conditions which shall be set forth in a written instrument executed by the Debtor or the person so acting in its behalf or by such Secured Party respecting the use and disposition of such property or the proceeds thereof;

SEVENTH

Together with all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and all the tolls, earnings, rents, issues, profits, revenues and other income, products and proceeds of the Collateral, and all other property of any nature appertaining to any of the plants, systems, business or operations of the Debtor, whether or not affixed to the realty, used in the operation of any of the premises or plants or the utility system, or otherwise, which are now owned or acquired by the Debtor, and all the estate, right, title and interest of every nature whatsoever, at law as well as in equity, of the Debtor in and to the same and every part thereof (other than Excepted Property with respect to any of the foregoing).

Debtor: Navopache Electric Cooperative, Inc.

EXCEPTED PROPERTY

There is, however, expressly excepted and excluded from the Collateral the following described property of the Debtor, now owned or hereafter acquired (herein sometimes referred to as "Excepted Property"):

- A. all shares of stock, securities or other interests of the Debtor in the National Rural Utilities Cooperative Finance Corporation and CoBank, ACB and its predecessors in interest other than any stock, securities or other interests that are specifically described in Subclause D of clause First as being subjected to the lien hereof;
- B. all rolling stock (except mobile substations), automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment which are titled and/or registered in any state of the United States of America and all tools, accessories and supplies used in connection with any of the foregoing;
- C. all vessels, boats, ships, barges and other marine equipment, all airplanes, airplane engines and other flight equipment, and all tools, accessories and supplies used in connection with any of the foregoing;
- D. all office furniture, equipment and supplies that is not data processing, accounting or other computer equipment or software;
- E. all leasehold interests for office purposes;
- F. all leasehold interests of the Debtor under leases for an original term (including any period for which the Debtor shall have a right of renewal) of less than five (5) years;
- G. all timber and crops (both growing and harvested) and all coal, ore, gas, oil and other minerals (both in place or severed);
- H. the last day of the term of each leasehold estate (oral or written) and any agreement therefor, now or hereafter enjoyed by the Debtor and whether falling within a general or specific description of property herein: PROVIDED, HOWEVER, that the Debtor covenants and agrees that it will hold each such last day in trust for the use and benefit of all of the Secured Parties and that it will dispose of each such last day from time to time in accordance with such written order as the Secured Party in its discretion may give;
- I. all permits, licenses, franchises, contracts, agreements, contract rights and other rights not specifically subjected or required to be subjected to the lien hereof by the express provisions of the mortgage and security agreement by and among Debtor and Secured Parties (the "Mortgage"), whether now owned or hereafter acquired by the Debtor, which by their terms or by reason of applicable law would become void or voidable if mortgaged or pledged hereunder by the Debtor, or which cannot be granted, conveyed, mortgaged, transferred or assigned by the Mortgage without the consent of other parties whose consent has been withheld, or without subjecting any Secured Party to a liability not otherwise contemplated by the provisions of the Mortgage, or which otherwise may not be, hereby lawfully and effectively granted, conveyed, mortgaged, transferred and assigned by the Debtor; and
- J. the property, if any, identified in Attachment "C" hereto.

PROVIDED, HOWEVER, that (i) if, upon the occurrence of an Event of Default (as defined in the Mortgage), any Secured Party, or any receiver appointed pursuant to statutory provision or order of court, shall have entered into possession of all or substantially all of the Collateral, all the Excepted

Debtor: Navopache Electric Cooperative, Inc.

Property described or referred to in the foregoing Subdivisions A through H, inclusive, then owned or thereafter acquired by the Debtor shall immediately, and, in the case of any Excepted Property described or referred to in Subdivisions I through J, inclusive, upon demand of any Secured Party or such receiver, become subject to the lien hereof to the extent permitted by law, and any Secured Party or such receiver may, to the extent permitted by law, at the same time likewise take possession thereof, and (ii) whenever all Events of Default shall have been cured and the possession of all or substantially all of the Collateral shall have been restored to the Debtor, such Excepted Property shall again be excepted and excluded from the lien hereof to the extent and otherwise as hereinabove set forth.

ATTACHMENT B

Debtor: Navopache Electric Cooperative, Inc.

1. A certain tract of land described under one survey, which consolidates properties purchased from various individuals, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 336, Pages 616-617; (Lakeside Headquarters)
2. A certain tract of land described in a certain deed, dated May 26, 1950, by M. V. Gibbons and Mary H. Gibbons, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Book 31 of Deeds, Pages 207-208; (St Johns Office and Yard)
3. A certain tract of land described in a certain deed, dated March 9, 1962, by Roland S. Hamblin and Josephine W. Hamblin, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 51, Page 393; (Eagar Substation)
4. A certain tract of land described in a certain deed, dated March 24, 1965, by F. D. McCarty and his wife Mrs. F. D. McCarty, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Catron County, Reserve, New Mexico, in Volume M of Deeds, Page 34; (Reserve Office and Yard)
5. A certain tract of land described in a certain deed, dated May 28, 1974, by the Town of Springerville, Arizona, by Jack Becker, Vice Mayor, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 191, Page 564; (Springerville Office and Yard)
6. A certain tract of land described in a certain deed, dated March 31, 1975, by Melvin C. Greer and Elenor Greer, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 210, Page 188; (St. Johns Substation)
7. A certain tract of land described in a certain deed, dated June 18, 1975, by Jay M. Patterson and Jane R Patterson, his wife; Charles A. Patterson and Ruthe U. Patterson, his wife; Rob Roy Patterson and Diane Patterson, his wife; and Dorothy P Bast, a divorced woman, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 212, Page 448; (Concho Substation)

8. A certain tract of land described in a certain deed, dated July 29, 1981, by Nu West Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 670, Pages 138-142; (Pinetop Lakes Substation)
9. A certain tract of land described in a certain deed, dated November 3, 1988, by Overgaard Associates, Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 958, Pages 214-223; (Overgaard Office and Yard)
10. A certain tract of land described in a certain deed, dated February 17, 1994, by J. Harris Crosby, as President of Escudilla Cattle Co., a Limited Partnership, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, as Instrument #94007305, Book 768, Page 530; (Nutrioso Substation)
11. A certain tract of land described in a certain deed, dated April 1, 2005, by the Town of Pinetop/Lakeside Municipal Property Corporation, by Russ E Evans, President, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Recording #2005-09373; (Property to be used for New Headquarters)

Ch8

SECRETARY OF STATE
2006 JUN 21 PM 12:53

FILED

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07/06/2006 12:43PM 000001#5206 ***
UCC 1/DISP COLLE 9 \$5.00

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER [optional]

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, VA 20171-3025
Attn: Legal Administrative Assistant

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME
Navopache Electric Cooperative, Inc.

OR 1b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
1878 West White Mountain Boulevard Lakeside AZ 85929 USA

1d. TAX ID #: SSN OR EIN ADD'L INFO RE ORGANIZATION DEBTOR 1e. TYPE OF ORGANIZATION 1f. JURISDICTION OF ORGANIZATION 1g. ORGANIZATIONAL ID #, if any
86-0079371 Corporation Arizona 0039819-9 ☐ NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR 2b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

2d. TAX ID #: SSN OR EIN ADD'L INFO RE ORGANIZATION DEBTOR 2e. TYPE OF ORGANIZATION 2f. JURISDICTION OF ORGANIZATION 2g. ORGANIZATIONAL ID #, if any
☐ NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME
United States of America, Rural Utilities Service, USDA

OR 3b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
1400 Independence Avenue, S.W. Washington DC 20250-1500 USA

4. This FINANCING STATEMENT covers the following collateral:

Refer to Attachments "A" and "B" attached hereto and incorporated herein.

5. ALTERNATIVE DESIGNATION [if applicable]: LESSEE/LESSOR CONSIGNEE/CONSIGNOR BAILEE/BAILOR SELLER/BUYER AG. LIEN NON-UCC FILING

6. This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS. Attach Addendum [if applicable] 7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) [optional] All Debtors Debtor 1 Debtor 2

8. OPTIONAL FILER REFERENCE DATA
Arizona 13-AD44 Navajo

UCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

9. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

9a. ORGANIZATION'S NAME Navopache Electric Cooperative, Inc.		
OR		
9b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME, SUFFIX

10. MISCELLANEOUS:

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

11. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one name (11a or 11b) - do not abbreviate or combine names

11a. ORGANIZATION'S NAME				
OR				
11b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
11c. MAILING ADDRESS	CITY	STATE	POSTAL CODE	COUNTRY
11d. TAX ID #: SSN OR EIN	ADD'L INFO RE ORGANIZATION DEBTOR	11e. TYPE OF ORGANIZATION	11f. JURISDICTION OF ORGANIZATION	11g. ORGANIZATIONAL ID #, if any <input type="checkbox"/> NONE

12. ☒ ADDITIONAL SECURED PARTY'S or ☐ ASSIGNOR S/P'S NAME - insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME National Rural Utilities Cooperative Finance Corporation				
OR				
12b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX	
12c. MAILING ADDRESS 2201 Cooperative Way	CITY Herndon	STATE VA	POSTAL CODE 20171-3025	COUNTRY USA

13. This FINANCING STATEMENT covers ☐ timber to be cut or ☐ as-extracted collateral, or is filed as a ☒ fixture filing.

14. Description of real estate:

Refer to Attachment "B" attached hereto and incorporated by reference herein.

16. Additional collateral description:

15. Name and address of a RECORD OWNER of above-described real estate (if Debtor does not have a record interest):

17. Check only if applicable and check only one box.

Debtor is a ☐ Trust or ☐ Trustee acting with respect to property held in trust or ☐ Decedent's Estate

18. Check only if applicable and check only one box.

- ☒ Debtor is a TRANSMITTING UTILITY
☐ Filed in connection with a Manufactured-Home Transaction — effective 30 years
☐ Filed in connection with a Public-Finance Transaction — effective 30 years

Attachment A

Debtor: Navopache Electric Cooperative, Inc.

All property, assets, rights, privileges and franchises of the Debtor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein OR ANY OTHER KIND OR NATURE, except any Excepted Property, now owned or hereafter acquired or arising by the Debtor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following (hereinafter sometimes called the "Collateral"):

FIRST

- A. all of those fee and leasehold interests in real property set forth in Attachment "B" hereto, subject in each case to those matters set forth in such Attachment;
- B. all of the Debtor's interest in fixtures, easements, permits, licenses and rights-of-way comprising real property, and all other interests in real property, comprising any portion of the utility system located in the Counties listed in Attachment "B" hereto;
- C. all right, title and interest of the Debtor in and to those contracts of the Debtor
 - (i) relating to the ownership, operation or maintenance of any generation, transmission or distribution facility owned, whether solely or jointly, by the Debtor,
 - (ii) for the purchase of electric power and energy by the Debtor and having an original term in excess of 3 years,
 - (iii) for the sale of electric power and energy by the Debtor and having an original term in excess of 3 years, and
 - (iv) for the transmission of electric power and energy by or on behalf of the Debtor and having an original term in excess of 3 years, including in respect of any of the foregoing, any amendments, supplements and replacements thereto;
- D. all the property, rights, privileges, allowances and franchises particularly described in the annexed Attachment "B" are hereby made a part of, and deemed to be described in, this clause as fully as if set forth in this clause at length; and

ALSO ALL OTHER PROPERTY, real estate, lands, easements, servitudes, licenses, permits, allowances, consents, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same; all power sites, storage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, waterways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water, all rights of way and roads; all plants for the generation of electric and other forms of energy (whether now known or hereafter developed) by steam, water, sunlight, chemical processes and/or (without limitation) all other sources of power (whether now known or hereafter developed), all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, all telephone, radio, television and other communications, image and data transmission systems, air conditioning systems and equipment incidental thereto, water wheels, waterworks, water systems, steam and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereto, all machinery, engines, boilers, dynamos, turbines, electric, gas and other machines, prime movers, regulators, meters, transformers, generators (including, but not limited to, engine-driven generators and turbo generator

Debtor: Navopache Electric Cooperative, Inc.

units), motors, electrical, gas and mechanical appliances, conduits, cables, water, steam, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, towers, overhead conductors and devices, underground conduits, underground conductors and devices, wires, cables, tools, implements, apparatus, storage battery equipment, and all other equipment, fixtures and personalty, all municipal and other franchises, consents, certificates or permits; all emissions allowances, all lines for the transmission and distribution of electric current and other forms of energy, gas, steam, water or communications, images and data for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith, and (except as hereinbefore or hereinafter expressly excepted) all the right, title and interest of the Debtor in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or employed in connection with any property hereinbefore described, but in all circumstances excluding Excepted Property;

SECOND

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under all personal property and fixtures of every kind and nature including without limitation all goods (including inventory, equipment and any accessions thereto), instruments (including promissory notes), documents, accounts, chattel paper, electronic chattel paper, deposit accounts (including, but not limited to, money held in a trust account pursuant hereto or to a loan agreement), letter-of-credit rights, investment property (including certificated and uncertificated securities, security entitlements and securities accounts), software, general intangibles (including, but not limited to, payment intangibles), supporting obligations, any other contract rights or rights to the payment of money, insurance claims, and proceeds (as such terms are presently or hereinafter defined in the applicable UCC; provided, however that the term "instrument" shall be such term as defined in Article 9 of the applicable UCC rather than Article 3);

THIRD

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under any and all agreements, leases or contracts heretofore or hereafter executed by and between the Debtor and any person, firm or corporation relating to the Collateral (including contracts for the lease, occupancy or sale of the Collateral, or any portion thereof);

FOURTH

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under any and all books, records and correspondence relating to the Collateral, including, but not limited to all records, ledgers, leases and computer and automatic machinery software and programs, including without limitation, programs, databases, disc or tape files and automatic machinery print outs, runs and other computer prepared information indicating, summarizing, evidencing or otherwise necessary or helpful in the collection of or realization on the Collateral;

FIFTH

All other property, real, personal or mixed, of whatever kind and description and wheresoever situated, including without limitation goods, accounts, money held in a trust account pursuant hereto or to a loan agreement, and general intangibles now owned or which be hereafter acquired by the Debtor, but excluding Excepted Property, now owned or which may be hereafter acquired by the Debtor, it being the intention hereof that all property, rights, privileges, allowances and franchises now owned by the Debtor or acquired by the Debtor after the date hereof (other than Excepted Property) shall be as fully embraced within and subjected to the lien hereof as if such property were specifically described herein;

Debtor: Navopache Electric Cooperative, Inc.

SIXTH

Also any Excepted Property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien hereof by the Debtor or by anyone in its behalf; and any Secured Party is hereby authorized to receive the same at any time as additional security hereunder for the benefit of all the Secured Parties. Such subjection to the lien hereof of any Excepted Property as additional security may be made subject to any reservations, limitations or conditions which shall be set forth in a written instrument executed by the Debtor or the person so acting in its behalf or by such Secured Party respecting the use and disposition of such property or the proceeds thereof;

SEVENTH

Together with all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and all the tolls, earnings, rents, issues, profits, revenues and other income, products and proceeds of the Collateral, and all other property of any nature appertaining to any of the plants, systems, business or operations of the Debtor, whether or not affixed to the realty, used in the operation of any of the premises or plants or the utility system, or otherwise, which are now owned or acquired by the Debtor, and all the estate, right, title and interest of every nature whatsoever, at law as well as in equity, of the Debtor in and to the same and every part thereof (other than Excepted Property with respect to any of the foregoing).

Debtor: Navopache Electric Cooperative, Inc.

EXCEPTED PROPERTY

There is, however, expressly excepted and excluded from the Collateral the following described property of the Debtor, now owned or hereafter acquired (herein sometimes referred to as "Excepted Property"):

- A. all shares of stock, securities or other interests of the Debtor in the National Rural Utilities Cooperative Finance Corporation and CoBank, ACB and its predecessors in interest other than any stock, securities or other interests that are specifically described in Subclause D of clause First as being subjected to the lien hereof;
- B. all rolling stock (except mobile substations), automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment which are titled and/or registered in any state of the United States of America and all tools, accessories and supplies used in connection with any of the foregoing;
- C. all vessels, boats, ships, barges and other marine equipment, all airplanes, airplane engines and other flight equipment, and all tools, accessories and supplies used in connection with any of the foregoing;
- D. all office furniture, equipment and supplies that is not data processing, accounting or other computer equipment or software;
- E. all leasehold interests for office purposes;
- F. all leasehold interests of the Debtor under leases for an original term (including any period for which the Debtor shall have a right of renewal) of less than five (5) years;
- G. all timber and crops (both growing and harvested) and all coal, ore, gas, oil and other minerals (both in place or severed);
- H. the last day of the term of each leasehold estate (oral or written) and any agreement therefor, now or hereafter enjoyed by the Debtor and whether falling within a general or specific description of property herein: PROVIDED, HOWEVER, that the Debtor covenants and agrees that it will hold each such last day in trust for the use and benefit of all of the Secured Parties and that it will dispose of each such last day from time to time in accordance with such written order as the Secured Party in its discretion may give;
- I. all permits, licenses, franchises, contracts, agreements, contract rights and other rights not specifically subjected or required to be subjected to the lien hereof by the express provisions of the mortgage and security agreement by and among Debtor and Secured Parties (the "Mortgage"), whether now owned or hereafter acquired by the Debtor, which by their terms or by reason of applicable law would become void or voidable if mortgaged or pledged hereunder by the Debtor, or which cannot be granted, conveyed, mortgaged, transferred or assigned by the Mortgage without the consent of other parties whose consent has been withheld, or without subjecting any Secured Party to a liability not otherwise contemplated by the provisions of the Mortgage, or which otherwise may not be, hereby lawfully and effectively granted, conveyed, mortgaged, transferred and assigned by the Debtor; and
- J. the property, if any, identified in Attachment "C" hereto.

PROVIDED, HOWEVER, that (i) if, upon the occurrence of an Event of Default (as defined in the Mortgage), any Secured Party, or any receiver appointed pursuant to statutory provision or order of court, shall have entered into possession of all or substantially all of the Collateral, all the Excepted

Debtor: Navopache Electric Cooperative, Inc.

Property described or referred to in the foregoing Subdivisions A through H, inclusive, then owned or thereafter acquired by the Debtor shall immediately, and, in the case of any Excepted Property described or referred to in Subdivisions I through J, inclusive, upon demand of any Secured Party or such receiver, become subject to the lien hereof to the extent permitted by law, and any Secured Party or such receiver may, to the extent permitted by law, at the same time likewise take possession thereof, and (ii) whenever all Events of Default shall have been cured and the possession of all or substantially all of the Collateral shall have been restored to the Debtor, such Excepted Property shall again be excepted and excluded from the lien hereof to the extent and otherwise as hereinabove set forth.

ATTACHMENT B

Debtor: Navopache Electric Cooperative, Inc.

1. A certain tract of land described under one survey, which consolidates properties purchased from various individuals, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 336, Pages 616-617; (Lakeside Headquarters)
2. A certain tract of land described in a certain deed, dated May 26, 1950, by M. V. Gibbons and Mary H. Gibbons, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Book 31 of Deeds, Pages 207-208; (St Johns Office and Yard)
3. A certain tract of land described in a certain deed, dated March 9, 1962, by Roland S. Hamblin and Josephine W. Hamblin, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 51, Page 393; (Eagar Substation)
4. A certain tract of land described in a certain deed, dated March 24, 1965, by F. D. McCarty and his wife Mrs. F. D. McCarty, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Catron County, Reserve, New Mexico, in Volume M of Deeds, Page 34; (Reserve Office and Yard)
5. A certain tract of land described in a certain deed, dated May 28, 1974, by the Town of Springerville, Arizona, by Jack Becker, Vice Mayor, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 191, Page 564; (Springerville Office and Yard)
6. A certain tract of land described in a certain deed, dated March 31, 1975, by Melvin C. Greer and Elenor Greer, his wife, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 210, Page 188; (St. Johns Substation)
7. A certain tract of land described in a certain deed, dated June 18, 1975, by Jay M. Patterson and Jane R Patterson, his wife; Charles A. Patterson and Ruthe U. Patterson, his wife; Rob Roy Patterson and Diane Patterson, his wife; and Dorothy P Bast, a divorced woman, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, Docket 212, Page 448; (Concho Substation)

8. A certain tract of land described in a certain deed, dated July 29, 1981, by Nu West Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 670, Pages 138-142; (Pinetop Lakes Substation)
9. A certain tract of land described in a certain deed, dated November 3, 1988, by Overgaard Associates, Inc., as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Docket 958, Pages 214-223; (Overgaard Office and Yard)
10. A certain tract of land described in a certain deed, dated February 17, 1994, by J. Harris Crosby, as President of Escudilla Cattle Co., a Limited Partnership, as grantor, to the Mortgagor, as grantee, and recorded in the Courthouse of Apache County, St. Johns, Arizona, as Instrument #94007305, Book 768, Page 530; (Nutrioso Substation)
11. A certain tract of land described in a certain deed, dated April 1, 2005, by the Town of Pinetop/Lakeside Municipal Property Corporation, by Russ E Evans, President, as grantors, to the Mortgagor, as grantee, and recorded in the Courthouse of Navajo County, Holbrook, Arizona, Recording #2005-09373; (Property to be used for New Headquarters)



The foregoing is a true and correct copy of the original instrument as the same appears from the records of the County of Navajo, Arizona.

Witness my hand and the seal of said County at Holbrook, Arizona, this 1st day of June, 2005.

Notary Public

My Comm. Expires